

**UNITED STATES DISTRICT COURT  
SOUTHERN DISTRICT OF NEW YORK**

DANIEL AUDE, Individually and on Behalf of All Others Similarly Situated,	)	CIVIL ACTION NO.
	)	<u>CLASS ACTION</u>
Plaintiff,	)	
	)	
vs.	)	<b><u>COMPLAINT FOR VIOLATION OF THE FEDERAL SECURITIES LAWS</u></b>
KOBE STEEL, LTD., HIROYA	)	
KAWASAKI, YOSHINORI ONOE, AKIRA	)	
KANEKO, and NAOTO UMEHARA,	)	
Defendants.	)	<u>JURY TRIAL DEMANDED</u>
	)	

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**INTRODUCTION**

Plaintiff Daniel Aude (“Plaintiff”), individually and on behalf of all others similarly situated, alleges the following based on personal knowledge as to Plaintiff and Plaintiff’s own acts, and upon information and belief as to all other matters based upon the investigation conducted by and through Plaintiff’s attorneys, which included, among other things, a review of press releases and other public statements issued by Kobe Steel, Ltd. (“Kobe Steel” or the “Company”), Kobe Steel’s filings with the U.S. Securities and Exchange Commission (“SEC”), media and analyst reports about the Company, and information readily available on the Internet. Plaintiff believes that substantial additional evidentiary support will exist for the allegations set forth herein after a reasonable opportunity for discovery.

**SUMMARY OF THE ACTION**

1. This is a securities class action on behalf of all persons who purchased or otherwise acquired the publicly traded American Depository Receipts (“ADRs”) of Kobe Steel on the open market in the United States, between May 29, 2013 and October 12, 2017, inclusive (the “Class Period”). The action is brought against Kobe Steel and certain of its officers and/or directors for

violations of the Securities Exchange Act of 1934 (the “Exchange Act”) and SEC Rule 10b-5 promulgated thereunder.

2. Kobe Steel is one of Japan’s largest steel manufacturers and a major supplier of aluminum and copper products. The Company’s other business segments include wholesale power supply machinery, construction machinery, real estate and electronic materials. The Company uses “Kobelco” as its corporate logo and brand name for its worldwide operations.

3. At the beginning of the Class Period, Kobe Steel launched a new business plan ostensibly to make the Company more efficient and profitable for sustained growth. The progressive business strategy purported to “reduce fixed costs, procurement costs, quality error costs, and other costs.” Throughout the Class Period, Kobe Steel maintained that its business plan was “making steady progress” consistent with its “Core Values” of “provid[ing] technologies, products and services that win the trust and confidence of our customers we serve and the society in which we live” and “corporate philosophy” of “provid[ing] reliable and advanced technologies, products and services that satisfy customers.”

4. In tandem with its business plan, Kobe Steel repeatedly represented the quality of its products and integrity of its operations. Kobe Steel frequently emphasized the Company’s compliance with “the laws, corporate rules and societal norms” and that it fostered a culture of high ethical standards and corporate governance where it conducts its “corporate activity in a fair and sound manner with the highest sense of ethics and professionalism.” Throughout the Class Period, Kobe Steel represented its commitment to a strong corporate code of ethics as it “offer[s] excellent products and services” by “operat[ing] business fairly and honestly” and by “comply[ing] with applicable laws, rules and principles of society.” Kobe Steel represented that it prioritized its products and people by “pay[ing] special attention to product safety.” Notably, the Company

represented to have "an organizational culture that is ***highly sensitive to compliance issues***" and "***[t]horoughly carry out compliance*** and contribute to society." Moreover, Kobe Steel represented that its internal reporting system "prevent[s] risks associated with legal, ethical and other compliance-related issues from materializing and spreading."

5. However, unbeknownst to the market, Defendants' (as defined herein) Class Period statements pertaining to the specifications of its products and performance of its operations were materially false and misleading because the Company had falsified data on many of products including its aluminum, copper and steel products; and sold products that failed quality control tests in violation of laws and regulations.

6. On Sunday, October 8, 2017, during the day, the Company issued a press release entitled "Improper conduct concerning a portion of the aluminum and copper products manufactured by Kobe Steel." The press release disclosed that certain of Kobe Steel's products "did not comply with the product specifications" and "[d]ata in inspection certificates had been improperly rewritten etc., and the products were shipped as having met the specifications concerned."

7. On this news, ADRs<sup>1</sup> of Kobe Steel fell \$0.62 per ADR or over 10% from its previous closing price to close at \$5.30 per ADR on October 9, 2017.

8. On October 10, 2017, before the U.S. market opened, *Reuters* published an article entitled, "Kobe Steel's data-fabrication stuns Japanese manufacturers," which disclosed that several major manufacturers had confirmed use of the affected Kobe Steel products.

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<sup>1</sup> The price movements in this complaint reflects the Kobe Steel ADRs trading on the OTC Exchange ("OTC") under the ticker symbol "KBSTY."

9. On this news, ADRs of Kobe Steel plummeted throughout the trading day. Kobe Steel ADRs ultimately fell \$1.30 per ADR or over 24% from its previous closing price to close at \$4.00 per ADR on October 10, 2017.

10. After the market closed on October 12, 2017, *Bloomberg* published an article entitled, “Kobe Steel Scandal Expands Into Core Business Overseas,” which reported that the Company’s fake data scandal included its core business of steel to numerous international companies.

11. On October 13, 2017, during U.S. market hours, Kobe Steel issued a press release entitled, “Report on improper conduct concerning Kobe Steel and its group of companies.” The press release provided updated information about an investigation into the falsified data and related wrongdoing and listed numerous nonconforming products the Company had identified to date. On the same day, several media outlets reported that the number of impacted customers had more than doubled from the initial estimates of 200 customers.

12. On this news, ADRs of Kobe Steel fell \$0.40 per ADR or over 10% from its previous closing price to close at \$3.55 per ADR on October 13, 2017.

13. Subsequent news reports and the Company’s own internal investigation revealed that Kobe Steel’s lack of quality controls and data tampering was a result of, among other things, wholly inadequate and ineffective corporate governance and compliance initiatives.

14. As a result of Defendants’ wrongful acts and omissions, and the precipitous decline in the market value of the Company’s ADRs, Plaintiff and other Class members have suffered damages.

**JURISDICTION AND VENUE**

15. The claims asserted herein arise under §§ 10(b) and 20(a) of the Exchange Act (15 U.S.C. §§ 78j(b) and 78t(a)) and Rule 10b-5 promulgated thereunder by the SEC, 17 C.F.R. § 240.10b-5.

16. This Court has jurisdiction over the subject matter of this action pursuant to 28 U.S.C. §§ 1331 and 1337, and Section 27 of the Exchange Act, 15 U.S.C. § 78aa.

17. Venue is proper in this District pursuant to Section 27 of the Exchange Act, 15 U.S.C. § 78aa and 28 U.S.C. § 1391(b). Kobe Steel transacts business in this District, maintains an office of its U.S. unit, Kobe Steel USA, Inc., in this District at 535 Madison Avenue, New York, NY 10022, and the alleged misstatements entered, and the subsequent damages took place, within this District.

18. In connection with the acts alleged in this complaint, Defendants, directly or indirectly, used the means and instrumentalities of interstate commerce, including, but not limited to, the mails, interstate telephone communications, and the facilities of the national securities markets.

**PARTIES**

19. Plaintiff purchased Kobe Steel ADRs during the Class Period, as set forth in the certification attached hereto, and was damaged as the result of Defendants' wrongdoing as alleged in this complaint.

20. Defendant Kobe Steel is a Japanese corporation with its principal executive offices located at 2-4, Wakinohama-Kaigandori 2-chome, Chou-ku, Kobe, Hyogo, 651-8585, Japan. Kobe Steel is a major Japanese manufacturer of aluminum, copper and steel products. Other business segments include of wholesale power supply, machinery, construction machinery, real

estate, and electronic materials. The Company uses “Kobelco” as its corporate logo and brand name for its worldwide operations. Kobe Steel ADRs trade on the OTC under the ticker symbols “KBSTY” and “KBSTF”.

21. Defendant Hiroya Kawasaki (“Kawasaki”) joined the Company in April 1980 and has held various management positions throughout his tenure at Kobe Steel. As it relates to the Class Period, Kawasaki served as: (i) President and Representative Director between April 2013 and April 2016; and (ii) Chairman of the Board, President, Chief Executive Officer and Representative Director between April 2016 and the present.

22. Defendant Yoshinori Onoe (“Onoe”) joined the Company in April 1980 and has held various management positions throughout his tenure at Kobe Steel. As it relates to the Class Period, Onoe served as: (i) Manager of the Company’s Kakogawa Steel Manufacturing Plan and Managing Executive Officer between April 2012 and June 2014; (ii) Vice President, Manager of its Iron and Steel Business and Representative Director between June 2014 and April 2016; and (iii) Executive Vice President, Manager of Iron and Steel Business and Representative Director between April 2016 and the present.

23. Defendant Akira Kaneko (“Kaneko”) joined the Company in April 1979 and has held various management positions throughout his tenure at Kobe Steel. As it relates to the Class Period, Kaneko served as: (i) Managing Executive Officer between April 2011 and June 2013; (ii) Managing Executive Officer, Assistant Manager of Aluminum & Copper Business between June 2013 and April 2015; (iii) Vice President, Manager of Aluminum & Copper Business, and Representative Director between April 2015 and April 2016; and (iv) Executive Vice President, Manager of Aluminum & Copper Business and Representative Director between April 2016 and the present.

24. Defendant Naoto Umehara (“Umehara”) joined the Company in April 1979 and has held various management positions throughout his tenure at Kobe Steel. As it relates to the Class Period, Umehara served as: (i) Managing Executive Officer between April 2011 and June 2014; (ii) Senior Managing Director between June 2014 and April 2015; (iii) Vice President and Representative Director between April 2015 and April 2016; and (iv) Executive Vice President and Representative Director between April 2016 and the present.

25. Defendants Kawasaki, Onoe, Kaneko and Umehara are collectively referred to hereinafter as the “Individual Defendants.”

26. By virtue of their positions, which included President, Chairman and Chief Executive Officer of the Company, and the heads of the divisions where the improper conduct described herein primarily occurred, the Individual Defendants knew of or recklessly disregarded the adverse facts alleged herein, as set forth below.

## **SUBSTANTIVE ALLEGATIONS**

### **Background**

27. Kobe Steel is a leading Japanese steel manufacturer and supplier of aluminum and copper products. The Company’s other business segments include wholesale power supply machinery, construction machinery, real estate and electronic materials. Kobe Steel was founded in Japan in or around 1905 and since that time has developed global operations. The Company has approximately 36,000 employees across Japan, the Americas, Asia and Europe and sells its products to more than 500 customers around the world.

28. In June 2000, Kobe Steel formulated a document entitled, “Kobe Steel, Ltd. Corporate Code of Ethics.” The document included Kobe Steel’s Corporate Ethical Principles (the “Principles”) with which the Company, its directors, officers and employees purportedly had to

comply in conducting their business activities. The Corporate Code of Ethics was later amended in April 2008. The Principles stated that Kobe Steel would, among other things: (a) operate business fairly and honestly and comply with applicable laws, rules and principles of society; (b) contribute to society by offering excellent products and services that met its customers' needs; (c) create a safe, comfortable and productive workplace and respect employees; and (d) respect the interest of stakeholders in the Company.

29. To put Kobe Steel's Principles into practice, 16 Standards of Corporate Conduct (the "Standards") were adopted for the Company, its directors, officers and employees. The Standards included, among other things, offering high quality products. Additionally, to achieve "excellence in quality," the Company promised to implement protocols to ensure products are safe and free from defects and compliant with relevant laws and guidelines. In regard to relations between society and the Company, Kobe Steel stated, "The Company conducts its business in compliance with laws and accepted standards of responsible behavior." Employees ostensibly were to take "sincere actions" to comply with relevant laws and, specifically, securities regulations. Further, the Company affirmed that it "will disclose information that society needs to know through timely and appropriate means... By doing so, the Company maintains communication with society and ensures that its business activities are fair, transparent and in observance with accepted social standards."

30. As part of Kobe Steel's Standards, a Company-wide compliance system was implemented to prevent corporate misconduct. The compliance system purportedly created "an environment in which each director, officer, and employee is always conscious of corporate ethics" and provided an effective and safe way for employees to report concerns.

31. In 2006, and in the same period that Kobe Steel was developing its new Corporate Code of Ethics, the Company formulated “The Kobe Steel Group’s Corporate Philosophy”: (i) “We provide reliable and advanced technologies, products and services that satisfy customers;” (ii) “We support each employee in developing his or her abilities, while respecting mutual cooperation within the Kobe Steel Group;” and (iii) “Through continuous efforts for innovative change, we aim to enhance our corporate values.”

32. On April 14, 2010, Kobe Steel announced that the Company had formulated a new “Medium-to-Long-Term Business Vision called “Vision ‘G’.” The “G” represented “Global,” “Group” and “Growth.” Vision “G” was to provide the business framework for Kobe Steel for the next five to ten years. The goals of Vision “G” were to allow the Company to: (a) “ha[ve] a presence in the global market;” (b) “maintain[] a stable profit structure and a strong financial foundation;” and (c) “prosper[] together with its shareholders, business partners, employees and society.”

33. The stated basic policy of the Vision “G” business plan included, among other things: (a) a “pursuit of High-End ‘Only One’ products” that only Kobe Steel can provide; (b) improving customer satisfaction by “providing better products and services”; and (c) implementing “‘Monozukuri’ (or manufacturing excellence) in the Kobe Steel Group [a]s a total activity that covers sales and marketing, development and design, procurement, and manufacturing.”

34. Kobe Steel claimed that Vision “G” would allow for “barrier-free” thinking to “lower organizational barriers and improve the flow of communication to further amass and integrate expertise, ideas and know-how in order to create new value.” In addition, the Company stated that Vision “G” would allow Kobe Steel to contribute to society by “[b]uild[ing] an

organizational structure that has ‘high sensitivity’” and “a corporate culture for the entire Kobe Steel Group that is highly sensitive to compliance.”

35. In announcing Vision “G,” the Company provided an updated code of ethics “to ensure that we act as a good corporate citizen in accordance with all applicable laws, regulations and social norms.” Kobe Steel announced that under its updated “Corporate Philosophy” now entailed: (a) “We provide reliable and advanced technologies, products and services that satisfy customers;” (b) “We support each employee in developing his or her abilities, while respecting mutual cooperation within the Kobe Steel Group;” and (c) “Through continuous efforts for innovative change, we aim to enhance our corporate values.” The documents cited in paragraphs 29-35 were publicly available to investors.

**Materially False and Misleading Statements  
Issued During the Class Period**

**The 2013 Plan**

36. On May 29, 2013, as part of Kobe Steel’s continued implementation of Vision “G,” the Company issued a press release announcing its Fiscal 2013-2015 Medium-Term Business Plan (the “2013 Plan”), representing, in relevant part:

The Kobe Steel Group launched KOBELCO VISION “G” in 2010 to actively undertake business development overseas. In the previous business plan covering fiscal 2010-2012, the business environment worsened considerably beyond original assumptions. Kobe Steel’s machinery-related businesses were relatively strong, but its materials business, in particular the steel business, faced a considerable decline in business performance. As a result, Kobe Steel posted a consolidated ordinary loss in fiscal 2012.

Under this situation, to achieve the future vision of the Kobe Steel Group under KOBELCO VISION “G,” Kobe Steel positions the Fiscal 2013-2015 Medium-Term Business Plan to rebuild the Group’s business foundation over the next three years. The plan aims to strengthen profitability primarily in the steel business and improve the financial performance of the Group.

At the same time, the next three years are seen as the time to steadily lay the foundation for stable profits and business growth, looking ahead to the medium- to long-term future of fiscal 2016 and beyond. Kobe Steel will begin by reforming the structure of its steel business, strategically expanding the machinery business and expanding the power supply business.

Through these measures, Kobe Steel intends to strengthen the Group's diversified business operations, expanding the power supply business, in addition to its current two pillars of the materials business and the machinery business, in order to build a stable profit base.

37. To improve the competitiveness of the Company, the press release issued in connection with the announcement of the 2013 Plan stated, “Activities of the Committee for Cost Reduction and Cash Generation, ***launched in 2012, are anticipated to reduce fixed costs, procurement costs, quality error costs, and other costs.***”<sup>2</sup>

38. The 2013 Plan reiterated that the primary goals of Vision “G” are to allow the Company to: (a) “maintain[] a presence in the global market”; (b) “ha[ve] a stable profit structure and a strong financial foundation”; and “***prosper[] together with its shareholders, business partners, employees and society.***”

39. Also on May 29, 2013, an investor relations presentation regarding the 2013 Plan was provided in tandem with the press release. A slide from the presentation summarized how the Company was purportedly improving its competitiveness, which included actions such as, “Reduction of Quality Failure Cost”:

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<sup>2</sup> For ease of reference, the specific materially false and misleading statements are italicized and bolded.



### 3. Improving the Competitiveness of the Company

(Billion yen)	Amount of effect in FY2015 (vs. FY2012)
● <b>Labor costs /efficiency improvements</b>	1.0
● <b>Reduction of F costs</b>	10.0
● <b>Reduction of V costs</b>	15.0
● <b>“Monozukuri-ryoku” strengthening</b>	4.0
	<b>TTL 30.0</b>

#### ● Actions

<b>Labor costs /efficiency improvements</b>	: Pay cuts for executives and managers, increasing work productivity of staff, etc.
<b>Reduction of F costs</b>	: Reduction of maintenance costs, cutting down expenses, etc.
<b>Reduction of V costs</b>	: Getting competitive quotes, central buying, buying from overseas, etc.
<b>“Monozukuri-ryoku” Strengthening</b>	: Reduction of Quality Failure Cost, promoting energy savings, etc.

KOBELCO VISION “G”

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40. Another slide from the presentation stated that the Company was improving financial performance through its continued “‘Monozukuri-ryoku’ [manufacturing capabilities] strengthening,” correlating to a “[r]eduction of Quality Failure Cost by thorough management of quality.” The same slide stated that the Company was, “[c]ultivating a compliance-sensitive culture.”



### “Monozukuri-ryoku” Strengthening

- Going beyond the current framework of the organization, visualization, synergy from the fusion of technologies
- Reduction of Quality Failure Cost by thorough management of quality

### Enhancement of Human Resource Development

- Development of training programs for specialists and global human resources
- Skill transmission and building a system for the training of engineers

### Technological Development Strengthening

- Information sharing in Kobe Steel Group and creation of new “Only One” products by utilizing technology
- Strengthening leading-edge technology and basic technology for maintaining competitive advantage in the medium to long term

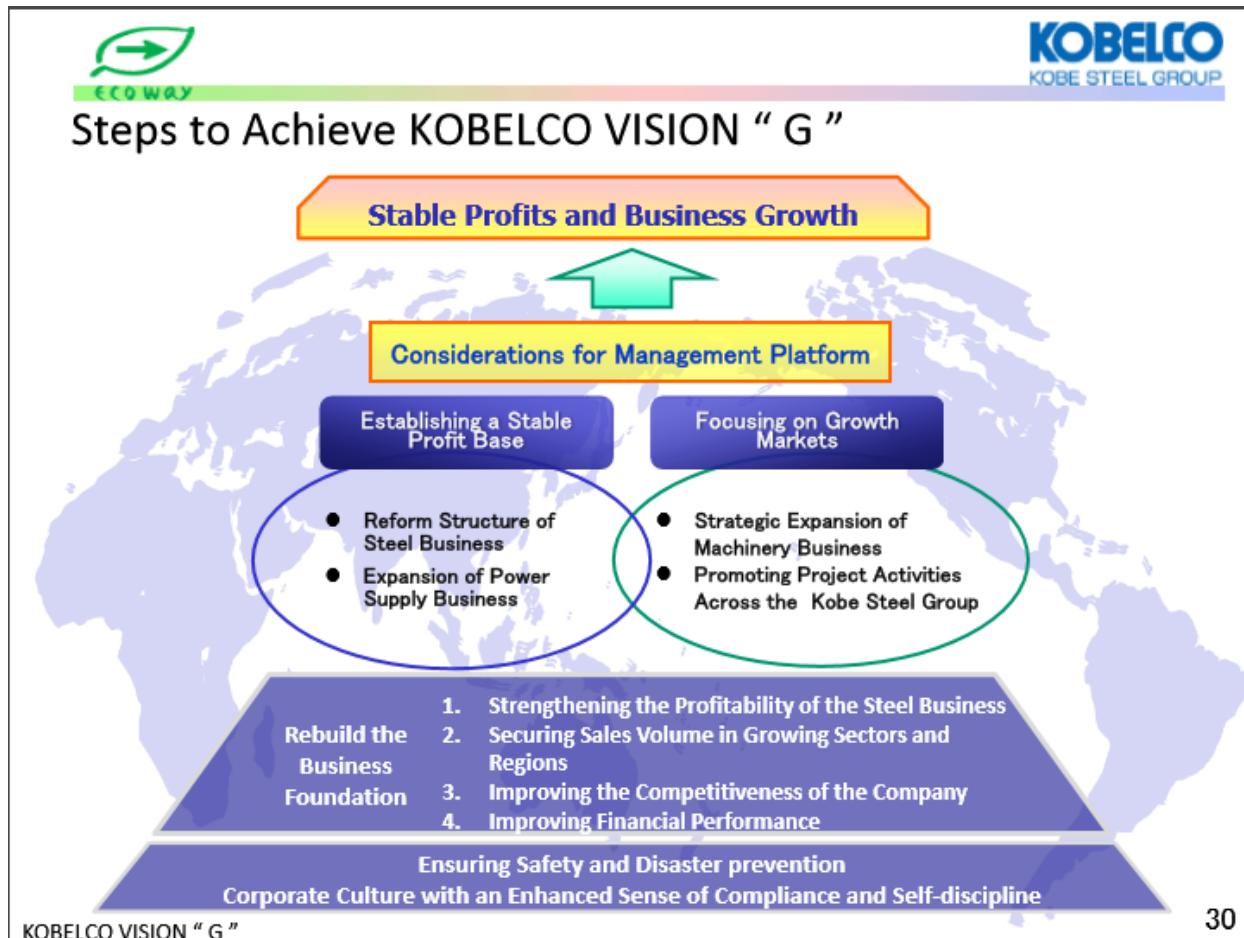
### Enforcement of Compliance and Contributing to Society

- Cultivating a compliance-sensitive culture
- Contributing to local communities and environmental conservation

KOBELCO VISION “G”

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41. In outlining the Company’s steps to achieve Vision “G,” the 2013 Plan presentation included a slide showing its foundation was built upon a “Corporate Culture with an *Enhanced Sense of Compliance and Self-discipline.*”



42. The 2013 Plan presentation concluded with a slide summarizing the Company's corporate philosophy: “1. *We provide reliable and advanced technologies, products and services that satisfy customers.* 2. *We support each employee* in developing his or her abilities, *while respecting mutual cooperation* within the Kobe Steel Group. 3. Through continuous efforts for innovative change, we aim to enhance our corporate values.”

### The 2013 Annual Report

43. In August 2013, Kobe Steel released the Company's annual report for year ended March 31, 2013 (the “2013 Annual Report”). The 2013 Annual Report included a letter to shareholders from Defendant Kawasaki wherein he discussed, among other things, Kobe Steel's 2013 -2015 Medium Term Business Plan, and represented, in relevant part:

During the period from April 2010, when we launched our medium- to long-term business vision, KOBELCO VISION “G,” to the present, the business environment became extremely adverse, worsening more than expected and resulting in our first ordinary loss in 11 years in fiscal 2012.

*In light of these circumstances, we have positioned the three-year period of the Medium-Term Business Plan beginning from 2013 as a period for “rebuilding the Group’s business foundation” so that we can achieve the goals of KOBELCO VISION “G.” Specifically, we plan to carry out the following four measures.*

### **Rebuilding the Business Foundation**

1. Strengthening the Profitability of the Steel Business
2. Securing Sales Volume in Growth Sectors and Regions
3. Improving the Competitiveness of the Company
4. Improving Financial Performance

*Through these initiatives, we will add ¥75.0 billion in profits by reducing costs in the steel business and working to become more competitive.* By securing sales volumes in growth fields and regions, we aim to raise an additional ¥10.0 billion to ¥30.0 billion in profits. Even if we experience some negative effects, such as an appreciating yen, we aim to achieve ordinary income of ¥80.0 billion to ¥100.0 billion on a consolidated basis.

The Medium-Term Business Plan is seen as both a time to rebuild the business base and to lay the foundation for stable profits and business growth, looking ahead to the medium- to long-term future of fiscal 2016 and beyond. For this purpose, we will implement three initiatives.

### **Laying the Foundation for Stable Profits and Business Growth**

1. Reforming the Structure of the Steel Business
2. Strategically Expanding the Machinery Business
3. Expanding the Power Supply Business

As stated above, our goal is to become a company that can generate ordinary income of ¥200.0 billion, or at least ¥100.0 billion during bad economic times, by around 2020. To accomplish this, *we will strengthen the profitability of the steel business, improve our competitiveness, and rebuild the business foundation by bolstering our financial performance. Looking ahead to the medium- to long-term future of fiscal 2016 and beyond, we will lay the foundation for stable profits and business growth.* In addition, from 2016, just as soon as we possibly can, we will improve the D/E ratio to 1.0 times or less.

44. The 2013 Annual Report reiterated the three main points of Kobe Steel’s Vision “G”: (a) Maintain[] a global market presence; (b) Ha[ve] a stable profit structure and a strong financial foundation; and (c) *Prosper[] together with shareholders, business partners, employees and society.*

45. The 2013 Annual Report also stated that a special initiative in the 2013 Plan to improve the competitiveness of the Company was to “Strengthen manufacturing capabilities (*monzukuri-yoku*)” by “***Reduc[ing] quality defect costs.***” Thus, senior management of the Company, including the Individual Defendants, was purportedly especially focusing on quality defects.

46. The Annual Report 2013 additionally included statements on the Company’s Corporate Code of Ethics, Risk Management Activities and Group Company Compliance System:

*The Corporate Ethical Principles set forth the standards by which Kobe Steel, its directors, officers and employees must comply in conducting the Company’s various business activities and covers the following principles.*

From Kobe Steel’s Corporate Code of Ethics:

**Kobe Steel will:**

1. *Operate business fairly and honestly and comply with applicable laws, rules and principles of society.*
2. *Contribute to society by offering excellent products and services. In particular, pay special attention to product safety and the protection of personal and customer information.*
3. *Create a safe, comfortable and productive workplace and respect the individuality and differences of employees.*
4. *Respect the interests of stakeholders. Maintain healthy, positive relations with society at large, including customers, partners, employees and shareholders.*
5. Be a good corporate citizen that contributes to local communities.
6. Contribute to protecting the environment and creating a livable society.
7. Respect the culture and customs of other nations and contribute to the growth and development of their communities.

...

### **Risk Management Activities**

Kobe Steel has been carrying out risk management activities with the goal of *achieving an organizational culture that is highly sensitive to compliance issues*.

This means that, in addition to compliance risks that are universal throughout the Company in light of legal and societal changes, after the divisions have identified and checked by themselves the risks within their individual businesses, they formulate an annual risk management plan while consulting internal Company rules, manuals and other documentation as necessary. Every year, each division implements the Plan, Do, Check, Action (PDCA) cycle by implementing the plan (Do), reviewing the results (Check) and reflecting any improvements in next year's risk management plan (Action).

In addition, staff, mainly from corporate headquarters, visit offices and plants to ensure that the PDCA cycle for Companywide risk management activities is being properly implemented. They verify what progress has been made while collaborating with each location's compliance department.

To ensure effectiveness, the results of the year's activities of each division are incorporated in plans for the next year and subsequent years after executive management has verified them. Measures and policies are also adopted based on risk management activities with the goal of creating a corporate culture that is more highly sensitive to compliance issues.

### **The 2014 Annual Report**

47. In August 2014, Kobe Steel released the Company's annual report for year ended March 31, 2014 (the "2014 Annual Report"). The 2014 Annual Report included a letter to shareholders from Defendant Kawasaki wherein he discussed, among other things, Kobe Steel's 2013-2015 Medium-Term Business Plan, and represented, in relevant part:

*We have positioned the three-year period of the current medium-term business plan beginning from fiscal 2013 as a time to rebuild the Group's business foundation. At the same time, we view this period as a time for establishing a foundation for stable profits and business growth.*

*To rebuild our business foundation, we will tackle the following four issues: strengthening the profitability of the steel business, improving the competitiveness of the Company, improving financial performance, and securing sales volume in growth sectors and regions.*

With regard to strengthening the profitability of the steel business, we successfully achieved our goal of a ¥30.0 billion increase in fiscal 2013 *thanks to raw material cost improvements attributable to lower procurement expenses*, despite falling short of our fixed costs reduction target owing to increased production.

As for our progress toward improving the competitiveness of the Company, although due to stepped up production in fiscal 2013 we were unable to meet some

original targets, such as for fixed costs, our initiatives yielded a roughly ¥19.0 billion year-on-year improvement in earnings. ***We will continue to move forward with competitiveness improvement initiatives while striving to remain nimble in our response to changes in the business environment to maximize earnings.***

48. The 2014 Annual Report reiterated the Kobe Steel Group's Medium- to Long-Term Business Vision: Kobelco Vision "G" stating, in relevant part:

***Since April 2010, Kobe Steel has been striving to fulfill its medium- to long-term business vision, KOBELCO VISION "G,"*** which aims to create new value and achieve global growth. To fulfill this vision, and with a commitment to securing the Group's sustainable growth, in May 2013 we formulated a medium-term business plan in which our first priority is rebuilding our business base. We are moving forward and laying a solid foundation to secure stable profits and business growth.

49. The 2014 Annual Report additionally included statements on the Company's Corporate Code of Ethics, Risk Management Activities and Group Company Compliance System:

***The Corporate Ethical Principles set forth the standards by which Kobe Steel, its directors, officers and employees must comply in conducting the Company's various business activities and covers the following principles.***

From Kobe Steel's Corporate Code of Ethics:

**Kobe Steel will:**

1. ***Operate business fairly and honestly and comply with applicable laws, rules and principles of society.***
2. ***Contribute to society by offering excellent products and services. In particular, pay special attention to product safety and the protection of personal and customer information.***
3. ***Create a safe, comfortable and productive workplace and respect the individuality and differences of employees.***
4. ***Respect the interests of stakeholders. Maintain healthy, positive relations with society at large, including customers, partners, employees and shareholders.***
5. Be a good corporate citizen that contributes to local communities.
6. Contribute to protecting the environment and creating a livable society.
7. Respect the culture and customs of other nations and contribute to the growth and development of their communities.

### **Risk Management Activities**

Kobe Steel has been carrying out risk management activities with the goal of *achieving an organizational culture that is highly sensitive to compliance issues*.

This means that, in addition to compliance risks that are universal throughout the Company in light of legal and societal changes, after the divisions have identified and checked the risks within their individual businesses, they formulate an annual risk management plan while consulting internal Company rules, manuals and other documentation as necessary. Every year, each division implements the Plan, Do, Check, Action (PDCA) cycle by implementing the plan (Do), reviewing the results (Check) and reflecting any improvements in next year's risk management plan (Action).

In addition, staff, mainly from corporate headquarters, visit offices and plants to ensure that the PDCA cycle for Companywide risk management activities is being properly implemented. They verify what progress has been made while collaborating with each location's compliance department.

To ensure effectiveness, the results of the year's activities of each division are incorporated in plans for the next year and subsequent years after executive management has verified them.

*Measures and policies are also adopted based on risk management activities with the goal of creating a corporate culture that is more highly sensitive to compliance issues.*

### **The 2015 Annual Report**

50. In August 2015, Kobe Steel released the Company's Annual Report for year ended March 31, 2015 (the "2015 Annual Report"). The 2015 Annual Report reiterated The Kobe Steel Group's Medium- to Long-Term Business Vision: Kobelco Vision "G" stating, in relevant part:

In fiscal 2010, we launched KOBELCO VISION "G," which laid out our business vision over the medium to long term and set forth "creating new value and achieving global growth" as a management goal that since then *we have been working to achieve*.

*Kobe Steel's competitive edge lies in its unique expertise and technologies accumulated in Groupwide operations encompassing a wide variety of materials and machinery.*

*By integrating these strengths, Kobe Steel will further enhance the corporate value of the entire Group as it aims to secure sustainable growth.*

51. The 2015 Annual Report included a letter from Defendant Kawasaki wherein he discussed, among other things, Kobe Steel's 2013-2015 Medium-Term Business Plan, and represented in relevant part:

*We have positioned the three-year period of the current medium-term business plan beginning from fiscal 2013 as a time to rebuild the Group's business foundation. At the same time, we view this period as a time for establishing a foundation for stable profits and business growth.*

Specifically, *we have addressed the following issues*:

**Rebuilding the Business Foundation**

- Strengthening the Profitability of the Steel Business
- Securing Sales Volume in Growth Sectors and Regions
- *Improving the Competitiveness of the Company*
- *Improving Financial Performance*

**Steps for Stable Profits and Business Growth**

- Reforming the Structure of the Steel Business
- Strategically Expanding the Machinery Business
- Expanding the Power Supply Business

An overview of the important issues we are now addressing is presented in the special feature section on the following pages. *We are making steady progress overall.*

Through these efforts, the Group will strengthen its unique diversified business structure with a stable earnings foundation comprising its two main pillars of operations—the materials and the machinery businesses—and the power supply business.

**Improving Safety and Compliance**

Looking at operating results for fiscal 2014, we were able to secure reasonable profits and improve financial performance. However, we did see a number of major accidents and equipment failures and, from the perspective of monozukuri, or production—our fundamental basis as a manufacturer—fiscal 2014 was a year when many issues came to the forefront. *We would like to take this occasion to affirm our recognition that improving compliance and safety, which entails stable production, is a major prerequisite to achieving the goals set out in our medium-term plan.*

52. The “Special Feature” insert to the 2015 Annual Report on Kobelco Vision “G” stated, in relevant part:

Projecting the global economy and business environment over the medium- to long-term future, the Kobe Steel Group in April 2010 launched its business vision, KOBELCO VISION “G,” which defines the Group image over the next 5 to 10 years.

We are bolstering our various businesses under the five basic policies outlined below as we work toward achieving our Group image.

*Day by day, the Group is steadily making progress toward achieving KOBELCO VISION “G,” its medium- to long-term business vision for sustained growth.*

...

1. Thorough pursuit of high-end “Only One” products, technologies & services
2. Further improve manufacturing strengths
3. Further approach to growing markets (growing regions & growing business fields)
4. Leveraging the comprehensive capabilities of the Kobe Steel Group
5. Contributions to society

53. The 2015 Annual Report detailed five points for building the Company’s business foundation, including the following points (three and five, respectively):

#### **Improving the Competitiveness of the Company**

- Activities of the Committee for Cost Reduction and Cash Generation, launched in 2012, are anticipated to *reduce* fixed costs, procurement costs, *quality failure costs*, and other costs.

...

#### **Continued Efforts**

- Strengthen *monozukuri-ryoku* (manufacturing capabilities), technology development and human resource development.
- ***Thoroughly carry out compliance*** and contribute to society.

54. The 2015 Annual Report additionally included statements and charts regarding its Compliance Initiatives:

#### **Corporate Code of Ethics**

*Our Corporate Code of Ethics sets out principles and guidelines to ensure that we act as a good corporate citizen in accordance with all applicable laws, regulations and social norms.* It consists of our Corporate Ethical Principles, Standards of Corporate Conduct, and Implementation Guidelines for the Corporate Code of Ethics.

*Our Corporate Ethical Principles are a set of seven guidelines that Kobe Steel, including its directors, officers and employees, are required to follow when engaging in business activities. Based on our commitment to enforcing and strengthening compliance, these principles represent the foundations on which we fulfill our corporate social responsibilities, by contributing to the environment and interacting effectively with our customers, business partners, employees, members of the local community, and other stakeholders.* Our Standards of Corporate Conduct set out guidelines for particularly important activities for the

implementation of the Corporate Ethical Principles in day-to-day operations. Standards are implemented by individual employees based on operating manuals containing detailed explanations.

From Kobe Steel's Corporate Ethical Principles:

**Kobe Steel will:**

1. *Operate business fairly and honestly and comply with applicable laws, rules and principles of society.*
2. *Contribute to society by offering excellent products and services. In particular, pay special attention to product safety and the protection of personal and customer information.*
3. *Create a safe, comfortable and productive workplace and respect the individuality and differences of employees.*
4. *Respect the interests of stakeholders in the company.*
5. Be a good corporate citizen that contributes to local communities.
6. Devote itself to protecting the environment and creating a comfortable [sic] society.
7. Respect the culture and customs of other nations and contribute to the growth and development of their communities.

...

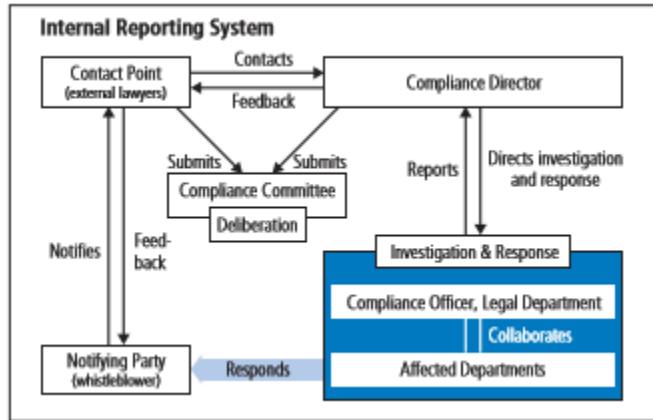
**Compliance Committee**

Kobe Steel has a Compliance Committee that advises the Board of Directors. Two of its members are company directors, while five come from outside the company in order to maintain fairness and neutrality. *The Committee proposes recommended plans, checks on progress, and deliberates cases reported through the internal reporting (whistleblowing) system.*

...

**Internal Reporting System**

*Our internal reporting (whistleblowing) system is one of the methods we use to prevent risks associated with legal, ethical and other compliance-related issues from materializing and spreading, by quickly identifying problems and implementing appropriate measures. If employees come across any form of illegal conduct within the company, the system enables them to report the matter directly to a designated outside lawyer who operates from a neutral standpoint.* The contents of such reports are then investigated by the Compliance Committee and appropriate action is taken. Similar systems have also been rolled out for Group companies.



### Risk Management Activities

The aim of risk management at the Kobe Steel Group is to enable departments to identify risks independently and take remedial action.

Every department formulates and implements their own Risk Management Plan, based on “operating risks” applicable to their own operations, and “shared risks” specified by the relevant staff department at corporate headquarters according to regulatory revisions and social changes. At the end of the fiscal year, the heads of each business unit and department, including top management, review the results of risk management activities over the course of the year and provide feedback for the following year.

Essentially, each business unit implements compliance and risk management activities based on the PDCA (Plan, Do, Check, Act) cycle. *The aim of ongoing activities such as these is to establish an organizational culture that is highly sensitive to compliance, within the context of individual operations.*

### The 2015 Policy Update and Revision

55. On December 21, 2015 (and revised on June 16, 2016), Kobe Steel released its “Basic Policy and Initiatives on the Corporate Governance of Kobe Steel, Ltd.” (“2015 Policy”). The 2015 Policy restated the Company’s corporate philosophy:

*We provide reliable and advanced technologies, products and services that satisfy customers.*

*We support each employee in developing his or her abilities, while respecting mutual cooperation within the Kobe Steel Group.*

Through continuous efforts for innovative change, we aim to enhance our corporate values.

56. The 2015 Policy reiterated Vision “G”, stating in relevant part:

***The Company Group continues to carry out various undertakings to attain its Medium-to Long-Term Business Vision; KOBELCO VISION “G” – Creating New Value, Aiming for Global Growth – formulated in April 2010.*** This vision provides the business framework for the Group over the next five to 10 years. By further integrating the knowledge and technologies of its diverse businesses in materials and machinery, the Company Group aims to become a corporate group that:

- Has a presence in the global market;
- Maintains a stable profit structure and a strong financial foundation; and
- Prosper together with its shareholders, business partners, employees and society.

***In achieving the Group image above, measures for safety and compliance shall first be thoroughly undertaken,*** and then under the basic policy below, the Group aims to create new value and global growth.

57. The 2015 Policy restated Kobe Steel’s Corporate Code of Ethics, representing in relevant part:

***The Corporate Code of Ethics sets out principles and guidelines to ensure that we act as a good corporate citizen in accordance with all applicable laws, regulations and social norms.*** It consists of the Corporate Ethical Principles, Standards of Corporate Conduct, and Implementation Guidelines for the Corporate Code of Ethics.

The Corporate Ethical Principles are a set of seven guidelines that the Company, its directors, officers and employees are required to follow when engaging in business activities.

Seven Guidelines under the Corporate Ethical Principles

- (1) ***The Company will operate business fairly and honestly and comply with applicable laws, rules and principles of society.***
- (2) ***The Company will contribute to society by offering excellent products and services, while paying attention to product safety and protection of personal information of customers and partners.***
- (3) ***The Company will create a safe, comfortable and productive workplace and respect the individuality and differences of employees.***
- (4) ***The Company will respect the interests of stakeholders in the Company.***
- (5) The Company will be a good corporate citizen that contributes to local communities.
- (6) The Company will devote itself to protecting the environment and creating a comfortable society.

(7) The Company will respect the culture and customs of other nations and contribute to the growth and development of their communities.

...  
Management must assume the responsibility for implementing the Corporate Code of Ethics and for taking all necessary actions in order to promote awareness of the Corporate Code of Ethics among all those concerned.

*Management must also heed the voice of the Company's stakeholders, both internally and externally, and promote the development and implementation of systems that will contribute to the achievement of ethical corporate behavior.*

In the event of a violation of the Corporate Code of Ethics, management must investigate the cause of the violation, develop reforms to prevent its recurrence, and make information publicly available regarding its intended actions for reforms.

*If health or safety is placed in danger, the company will carry out its responsibility to society by promptly disclosing any information necessary to minimize such risk.* After the prompt public disclosure of appropriate information regarding the violation, responsibility for the violation and its effects will be clarified and disciplinary action will be taken against persons responsible, which include the highest levels of management where necessary.

### **The Updated Vision “G+” Plan**

58. On April 5, 2016, Kobe Steel released its updated Medium-to Long-term Business Vision of Kobe Steel, now called Vision “G+.” The updated business plan focused on establishing an enterprise based on three core business areas. The new plan stated, in relevant part:

Formulating the medium- to long-term business vision, KOBELCO VISION “G,” in fiscal 2010, Kobe Steel, Ltd. has been actively expanding overseas and working to create products and services that only the Kobe Steel Group can offer.

In addition, the second phase of KOBELCO VISION “G,” the Fiscal 2013-2015 Medium-Term Business Plan, served to start the rebuilding of the company’s business base. The plan focused on strengthening profitability primarily in the steel business and improving the financial performance of the Group. To steadily lay the groundwork for stable profits and business growth, Kobe Steel commenced reforming the structure of its steel business, strategically expanding the machinery businesses, and growing the electric power supply business.

Along with the Fiscal 2016-2020 Group Medium-Term Management Plan, Kobe Steel will start initiatives for a new vision called KOBELCO VISION “G+” (pronounced “G plus”). *The new vision aims to further strengthen the Group’s growth strategy* centered on the three core business areas of materials, machinery and electric power to establish a solid business enterprise. Kobe Steel plans to focus

its management resources in growing fields anticipated to expand over the medium to long term such as weight savings in transportation as well as energy and infrastructure. Kobe Steel plans to increase the original added value of the Kobe Steel Group. *By achieving a strong competitive edge, Kobe Steel aims to expand and grow its businesses, while contributing to society.*

...  
Kobe Steel plans to undertake the creation of products and processes that provide customer value through differentiated technologies that strengthen the competitiveness of major products and in the automotive, aerospace and energy fields. *In addition, by strengthening product quality, on-site capabilities and data utilization, Kobe Steel plans to strengthen its production infrastructure and raise the level of its monozukuri-ryoku (manufacturing capabilities).*

59. In an accompanying slide presentation on the new Vision “G+” business plan, also dated April 5, 2016, Kobe Steel stated the Company’s “Corporate Image” was a: (a) “Corporate group that has a presence in global markets;” (b) “Corporate group with stable profit structure and a strong financial base;” and (c) “*Corporate group that brings about mutual prosperity to shareholders, business partners, employees and society.*”

60. The same presentation included a slide stating Kobe Steel’s strategies for strengthening its business base: (a) “*Strengthening corporate governance;*” (b) “*Securing and developing human resources;*” and (c) “*Strengthening technology development and monozukuri (manufacturing) capabilities*”.

61. In regard to strengthening its production infrastructure and increasing manufacturing capabilities, the same presentation included a slide stating the Company would: “*Promote activities for higher product quality and improved on-site capabilities that contribute to reinforcing production infrastructure and utilizing data to achieve innovation ([information and communications technology] utilization in monozukuri).*”

**Strengthening the Business Base III  
–Strengthening Technology Development and Manufacturing–**



Improve technology development capabilities that support growth strategies

- **Create differentiated technologies to strengthen competitive edge of major products that support business and profit expansion**
  - Materials: high-strength, high-formability automotive materials (ultra-high strength steel, aluminum)
  - Machinery: large-size, high-pressure compressors. Strengthen design base technology.
- **Create products and processes that provide customer value that only the Kobe Steel Group can offer in the automotive, aerospace and energy fields**
  - Access markets and customers through newly established bases in North America, Europe, etc.
  - Strengthen cross-sectional coordination within the Group (established the Transportation Materials Business Planning Section at head office)
  - Create products and processes together with customers and realize a common place that brings together Kobe Steel's technology (Set up and utilize technology show rooms)

Strengthen production infrastructure and increase manufacturing capabilities

- Promote activities for higher product quality and improved on-site capabilities that contribute to reinforcing production infrastructure and utilizing data to achieve innovation (ICT utilization in *monozukuri*)



40

62. The same presentation concluded with a slide stating Kobe Steel's Corporate Philosophy: (i) "*We provide reliable and advanced technologies, products and services that satisfy customers,*" (ii) "*We support each employee in developing his or her abilities, while respecting mutual cooperation within the Kobe Steel Group,*" and (iii) "*Through continuous efforts for innovative change, we aim to enhance our corporate values.*"

**The 2016 Updated Policy on Corporate Governance**

63. On June 23, 2016, Kobe Steel updated its "Basic Policy on Corporate Governance and Capital Structure, Corporate Data, and Other Basic Information." The policy document stated, in relevant part:

**Our Corporate Philosophy**

*We provide reliable and advanced technologies, products and services that satisfy customers.*

*We support each employee in developing his or her abilities, while respecting mutual cooperation within the Kobe Steel Group.*

Through continuous efforts for innovative change, we aim to enhance our corporate values.

[Medium-to Long-Term Business Vision]

*The Company Group continues to carry out various undertakings to attain its Medium-to Long-Term Business Vision;* KOBELCO VISION “G” – Creating New Value, Aiming for Global Growth – formulated in April 2010. By further integrating the knowledge and technologies of its diverse businesses in materials and machinery, the Company Group aims to become a corporate group that:

Has a presence in the global market;  
Maintains a stable profit structure and a strong financial foundation; and  
Prosper together with its shareholders, business partners, employees and society.

*The Company Group has started initiatives* for a new medium – term management plan, KOBELCO VISION “G+” (pronounced “G plus”) that follows KOBELCO VISION “G” and further strengthens and clarifies the growth strategy. The Company Group plans to focus its management resources in growing fields anticipated to expand over the medium to long term such as weight savings in transportation as well as energy and infrastructure and to increase the original added value of the Company Group. By achieving a strong competitive edge, the Company Group aims to expand and grow its businesses and contribute to society.

### **The 2016 Annual Report**

64. In August 2016, Kobe Steel released the Company’s Annual Report for year ended March 31, 2016 (the “2016 Annual Report”). The 2016 Annual Report reiterated The Kobe Steel Group’s Medium- to Long-Term Business Vision: Kobelco Vision “G,” stating in relevant part:

In fiscal 2010, we launched KOBELCO VISION “G,” which laid out our business vision over the medium to long term and set forth “creating new value and achieving global growth” as a management goal that since then we have been working to achieve. *Kobe Steel’s competitive edge lies in its unique expertise and technologies* accumulated in groupwide operations encompassing a wide variety of materials and machinery. *By integrating these strengths, Kobe Steel will further enhance the corporate value of the entire Group as it aims to secure sustainable growth.*

65. The 2016 Annual Report included a letter from Defendant Kawasaki, stating in relevant part:

Under the Fiscal 2016-2020 Group Medium-Term Management Plan launched in fiscal 2016, the Kobe Steel Group has adopted KOBELCO VISION “G+,” *a new vision aimed at further strengthening the Group’s growth strategy centered on the three core business areas of materials, machinery and electric power to ensure a solid business enterprise. “Plus” indicates the plan’s progression beyond the previous medium- to long-term vision and the further strengthening of initiatives targeting future growth fields. We plan to enhance the original added value of the Kobe Steel Group and achieve a strong competitive edge with the aim of expanding business operations while contributing to society.*

66. The 2016 Annual Report included a “Special Feature” insert that discussed Kobe Steel’s Kobelco Vision “G+,” in relevant part as follows:

KOBELCO VISION “G+,” launching in fiscal 2016, combines the current Medium-Term Management Plan and the vision of a business enterprise established in three core business areas[.] The Kobe Steel Group launched its medium- to long-term business vision KOBELCO VISION “G” in April 2010. It was formulated with a focus on the Kobe Steel Group’s direction for the next five to ten years, or, in other words, its medium- to long-term vision. *Under KOBELCO VISION “G,” we successfully implemented the Fiscal 2013–2015 Group Medium-Term Business Plan* and, in fiscal 2016, launched the Fiscal 2016–2020 Group Medium-Term Management Plan. Under this management plan, we are enhancing the growth strategies underpinned by the three pillars of the materials businesses, machinery businesses and electric power business and promoting initiatives for KOBELCO VISION “G+” to establish a solid business structure.

67. The Special Feature insert set forth the original five steps of Phase 1 (capturing growth markets on a global scale) of Vision “G,” in relevant part as:

- 1. Thorough pursuit of high-end “Only One” products, technologies and services**
  - Unite diverse knowledge and technologies to create new, “Only One” products that only Kobe Steel can provide.
  - *Improve customer satisfaction by determining and meeting customers’ changing needs to provide better products and technologies.*
  - Develop upstream and downstream areas of our current businesses to dramatically improve added value.
- 2. Further improve manufacturing strengths**

- *Monozukuri-ryoku* is the strength that provides reliable and advanced technologies, products and services eternally. *Monozukuri-ryoku* is also an engine for growth.
- Work across the Group on improving *monozukuri-ryoku*, namely *the manufacturing strengths that are the Kobe Steel Group's source of its competitiveness*.

**3. Further approach to growing markets (growing regions and growing business fields)**

- Strengthen business development in growth regions, focusing on emerging economies.
- Accelerate business undertakings in growth fields in Japan and overseas, including those involving the environment, resources and energy.

**4. Leveraging the comprehensive capabilities of the Kobe Steel Group**

- Organically unite technologies, personnel, information, knowledge and other key factors across organizations and viewpoints to create new value.
- *Systematically nurture employees that can strengthen the business foundation of the Group, implement change, and promote global business development.*

**5. Contributions to society**

- *Build a corporate culture for the entire Kobe Steel Group that is highly sensitive to compliance.* Actively fulfill our social responsibility centered on contributing to local communities and environmental conservation.

68. In describing Phase 2 (laying ground work for stability and growth, and rebuilding the building base) of Vision “G” the Company stated, in relevant part:

Looking toward realizing its vision for the Kobe Steel Group in fiscal 2020, under KOBELCO VISION “G,” Kobe Steel positioned the Fiscal 2013–2015 Medium-Term Business Plan to rebuild the Group’s business foundation over a three-year period. The plan aimed to strengthen profitability primarily in the steel business and improve the financial performance of the Group. At the same time, *the three years were seen as a period for steadily laying the foundation for stable profits and business growth*, in preparation for fiscal 2016 and beyond. Kobe Steel began reforming the structure of its steel business, strategically expanding the machinery businesses and growing the electric power business. Through these measures, Kobe Steel promoted the Group’s diversified business operations and expanded the electric power business, in addition to continuing its current two pillars of the materials businesses and the machinery businesses, in order to build a stable profit base.

69. In describing Phase 3 (business expansion in growth areas and strengthening the business base) of Vision “G” the Company stated, in relevant part:

Along with the Fiscal 2016–2020 Group Medium-Term Management Plan, Kobe Steel started initiatives for a new vision called KOBELCO VISION “G+.” *The new vision aims to further strengthen the Group’s growth strategy centered on the three core business areas of materials, machinery and electric power to establish a solid business enterprise.* Kobe Steel plans to focus its management resources in growing fields anticipated to expand over the medium to long term such as weight savings in transportation as well as energy and infrastructure. Kobe Steel plans to increase the original added value of the Kobe Steel Group. *By achieving a strong competitive edge, Kobe Steel aims to expand and grow its businesses, while contributing to society.* In fiscal 2020, the last year of the plan, we aim to achieve an ROA\*1 of 5% or higher and maintain a D/E ratio\*2 of 1.0 times or lower. We will achieve improved profitability (capital efficiency) while ensuring financial soundness.

70. The 2016 Annual Report further stated Kobe Steel would strengthen its Business Base by using “common strategies” of:

- I. *Strengthening corporate governance*
- II. *Securing and developing human resources*
- III. *Strengthening technology development and monozukuri (manufacturing) capabilities*

71. The 2016 Annual Report additionally included the following statements and charts regarding its Compliance Initiatives:

#### **Corporate Code of Ethics**

*The Corporate Code of Ethics sets out principles and guidelines to ensure that we act as a good corporate citizen in accordance with all applicable laws, regulations and social norms.* It consists of the Corporate Ethical Principles, Standards of Corporate Conduct, and Implementation Guidelines for the Corporate Code of Ethics.

The Corporate Ethical Principles are a set of seven guidelines that the Company, its directors, officers and employees are required to follow when engaging in business activities. Based on *our commitment to enforcing and strengthening compliance*, these principles represent the foundations on which we fulfill our corporate social responsibilities, by contributing to the environment and interacting effectively with our customers, business partners, employees, members of the local community, and other stakeholders. The Standards of Corporate Conduct set out guidelines for particularly important activities for the implementation of the Corporate Ethical Principles in day-to-day operations. The Standards of Corporate Conduct are implemented by individual employees based on operating manuals containing detailed explanations.

### Seven Guidelines under the Corporate Ethical Principles

1. *The Company will operate business fairly and honestly and comply with applicable laws, rules and principles of society.*
2. *The Company will contribute to society by offering excellent products and services, while paying attention to product safety and protection of personal information of customers and partners.*
3. *The Company will create a safe, comfortable and productive workplace and respect the individuality, differences and diversity of employees.*
4. *The Company will respect the interests of stakeholders in the Company.*
5. The Company will be a good corporate citizen that contributes to local communities.
6. The Company will devote itself to protecting the environment and creating a comfortable society.
7. The Company will respect the culture and customs of other nations and contribute to the growth and development of their communities.

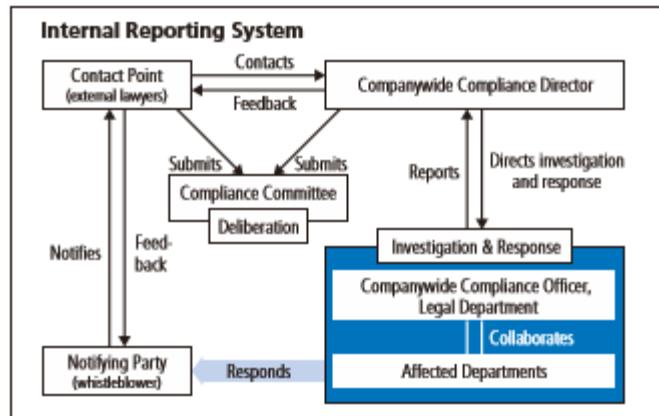
### Compliance Committee

The Company has a Compliance Committee that advises the Board of Directors. Two of its members are company directors, while five come from outside the company in order to maintain fairness and neutrality. *The Committee proposes recommended plans, checks on progress, and deliberates cases reported through the internal reporting (whistleblowing) system.*

...

### Internal Reporting System

*Our internal reporting (whistleblowing) system is one of the methods we use to prevent risks associated with legal, ethical and other compliance-related issues from materializing and spreading, by quickly identifying problems and implementing appropriate measures. If employees come across any form of illegal conduct within the company, the system enables them to report the matter directly to a designated outside lawyer who operates from a neutral standpoint.* The contents of such reports are then investigated by the Compliance Committee and appropriate action is taken. Similar systems have also been rolled out for Group companies.



### **Risk Management Activities**

The aim of risk management at the Kobe Steel Group is to enable departments to identify risks independently and take remedial action. Every department formulates and implements their own Risk Management Plan, based on “operating risks” applicable to their own operations, and “shared risks” specified by the relevant staff department at corporate headquarters according to regulatory revisions and social changes. At the end of the fiscal year, the heads of each business unit and department, including top management, review the results of risk management activities over the course of the year and provide feedback for the following year. Essentially, each business unit implements compliance and risk management activities based on the PDCA (Plan, Do, Check, Act) cycle. ***The aim of ongoing activities such as these is to establish an organizational culture that is highly sensitive to compliance, within the context of individual operations.***

### **Group Company Compliance System**

In addition to establishing compliance committees or equivalent bodies at all Group companies and drawing up a Kobe Steel Group Corporate Code of Ethics, we have also introduced an internal reporting system.

Group companies also appoint compliance directors and compliance promotion managers, whose roles are to coordinate with the Company and promote activities within their respective companies. Risk management activities in line with those at the Company are carried out at all Group companies.

### **The 2017 Next 100 Project**

72. On May 31, 2017, Kobe Steel issued a press release titled, “Kobe Steel launches Core Values of KOBELCO Next 100 Project.” The press release stated, in relevant part:

Kobe Steel, Ltd. announces the launching of the Core Values of KOBELCO Next 100 Project, which looks at the next 100 years. The Kobe Steel Group intends to unite all employees and create a better corporate group, namely an attractive corporate group full of pride and passion. Aiming to achieve sustainable development, the Kobe Steel Group began this project in April, the start of fiscal 2017.

***Under its medium-term management vision KOBELCO VISION “G+” unveiled last year, the Kobe Steel Group has started a medium-term management plan to establish three core business areas centered on materials, machinery and electric power. Kobe Steel is currently undertaking numerous strategic initiatives to realize its goals.*** The plan has reached the implementation stage, an important phase.

***Kobe Steel has also embarked on work style reform, diversity promotion and other initiatives.***

*Under these circumstances, it is important to once again share the same values that form the core of the entire Kobe Steel Group and unify the understanding of all members of the Group. As a result, Kobe Steel has returned to its Corporate Philosophy established in 2006 and has begun initiatives to once again instill awareness of these values among all Group members and for all members to share these values.*

*The Corporate Philosophy applies to all corporate activities, including corporate social responsibility (CSR), compliance, safety, quality control and other aspects. Instilling the Corporate Philosophy within and outside the Group, Kobe Steel aims to increase the sustainable development of the Group and improve its corporate values.*

To clarify the philosophy of the Kobe Steel Group, Kobe Steel has decided to call the Corporate Philosophy the “Core Values of KOBELCO.” The core values are the commitments of the Kobe Steel Group to society and express the values shared by the entire Kobe Steel Group.

In addition, to fulfill these commitments, Kobe Steel has newly established the “Six Pledges of KOBELCO Men and Women,” which all employees must uphold. The Six Pledges of KOBELCO Men and Women are concrete actions to achieve the Core Values of KOBELCO and define the conduct that each employee must follow.

Based on the Core Values of KOBELCO and the Six Pledges of KOBELCO Men and Women, the Kobe Steel Group aims to promote the sustainable development of the Group, as well as contribute to society.

### **Core Values of KOBELCO**

1. *We provide technologies, products and services that win the trust and confidence of our customers we serve and the society in which we live.*
2. *We value each employee and support his and her growth on an individual basis, while creating a cooperative and harmonious environment.*
3. Through continuous and innovative changes, we create new values for the society of which we are a member.

### **Six Pledges of KOBELCO Men and Women**

We, the men and women of KOBELCO, in the spirit of honoring Core Values of KOBELCO, make the following Six Pledges:

#### **1. Heightened Sense of Ethics and Professionalism**

*We not only follow the laws, corporate rules and societal norms, but also conduct our corporate activity in a fair and sound manner with the highest sense of ethics and professionalism.*

**2. Providing Superior Products and Services**

We provide safe, sound and innovative products and services to our customers, and thereby contribute to the well-being and advancement of the society.

**3. Establishing a Comfortable but Challenging Work Environment**

*We provide a safe and comfortable work environment, and we value each employee's character, personality and diversity*, and provide each employee with a challenging work experience so as to allow each employee to use his and her fullest capability.

**4. Living in Harmony with Local Community**

We make efforts to be a good “corporate citizen” in each local community which serves as the base for our group.

**5. Contribution to a Sustainable Environment**

We aim to build a richer and more sustainable world, and we conduct environmentally friendly manufacturing and contribute to the betterment of the natural environment through our technologies, products and services.

**6. Respect for Each Stakeholder**

We respect all of our stakeholders, including customers, business associates, employees and shareholders, as our colleagues and build good and sound relationships with all of them.

**The 2017 Annual Report**

73. In August 2017, Kobe Steel released the Company's Annual Report for 2017 (year ended March 31, 2017) (the “2017 Annual Report”). The 2017 Annual Report began by setting forth the Company's purported core values and pledges:

1. *We provide technologies, products and services that win the trust and confidence of our customers we serve and the society in which we live.*
2. *We value each employee and support his and her growth on an individual basis, while creating a cooperative and harmonious environment.*
3. Through continuous and innovative changes, we create new values for the society of which we are a member.

**Six Pledges of KOBELCO Men and Women**

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1. Heightened Sense of Ethics and Professionalism

***We not only follow the laws, corporate rules and societal norms, but also conduct our corporate activity in a fair and sound manner with the highest sense of ethics and professionalism.***

2. Providing Superior Products and Services

We provide safe, sound and innovative products and services to our customers, and thereby contribute to the well-being and advancement of the society.

3. Establishing a Comfortable but Challenging Work Environment

***We provide a safe and comfortable work environment, and we value each employee's character, personality and diversity,*** and provide each employee with a challenging work experience so as to allow each employee to use his and her fullest capability.

4. Living in Harmony with Local Community

We make efforts to be a good “corporate citizen” in each local community which serves as the base for our group.

5. Contribution to a Sustainable Environment

We aim to build a richer and more sustainable world, and we conduct environmentally friendly manufacturing and contribute to the betterment of the natural environment through our technologies, products and services.

6. Respect for Each Stakeholder

We respect all of our stakeholders, including customers, business associates, employees and shareholders, as our colleagues and build good and sound relationships with all of them.

74. Regarding Kobelco Vision “G+”, the Annual Report for 2017 stated, in relevant part:

In fiscal 2016, the Kobe Steel Group launched a new medium-term management plan and aims to establish a business enterprise centered on the three core businesses of materials, machinery and electric power under its medium- to long-term vision KOBELCO VISION “G+.” We intend to strengthen our stable earnings power under these initiatives. ***Kobe Steel's competitive edge lies in its unique expertise and technologies*** accumulated in groupwide operations encompassing a wide variety of materials and machinery. ***By integrating these strengths, Kobe Steel will further enhance the corporate value of the entire Group as it aims to secure sustainable growth.***

75. The 2017 Annual Report included a letter from Defendant Kawasaki wherein he discussed, among other things, Kobe Steel’s Fiscal 2016-2020 Group Medium-Term Management Plan, and represented, in relevant part:

Under the Fiscal 2016–2020 Group Medium-Term Management Plan launched in April 2016, the Kobe Steel Group has adopted KOBELCO VISION “G+,” ***a new vision aimed at further strengthening the Group’s growth strategy centered on***

*the three core business areas of materials, machinery and electric power to establish a solid business enterprise.*

...

### **Core Values of KOBELCO Next 100 Project**

In April 2017, the Group launched the Core Values of KOBELCO Next 100 Project, which looks to the next century. This project aims to unite all employees in creating a better corporate group, namely an attractive corporate group full of pride and passion to ensure its sustained development.

In the previous fiscal year, the Group launched a new medium-term management plan and aims to establish a business enterprise centered on the three core businesses of materials, machinery and electric power under its medium- to long-term vision KOBELCO VISION “G+.” The plan is now entering the important phase of implementation, and to realize our goals, we are currently promoting a range of strategic initiatives. To better adjust to turbulent times and shifting values, the Company has embarked on work style reform, diversity promotion and other initiatives. Given the current circumstances, we must once again ensure that all Group members share a unified understanding of the values that form the Group’s core. *We have therefore revisited our corporate philosophy established in 2006 and begun working to share these values among all Group employees. Our corporate philosophy is reflected in all of our business activities, including those related to quality control, safety, compliance and corporate social responsibility.* By promoting our philosophy inside and outside the Group, we aim to achieve sustained development and improve our corporate value. To make it more apparent that this philosophy applies to the entire Group, we decided to rename it the Core Values of KOBELCO. These are the Group’s commitments to society and express the values shared by the entire Group. To fulfill these commitments, we newly established the Six Pledges of KOBELCO Men and Women, which outline concrete actions that all employees must uphold.

76. A “Special Feature” insert to the 2017 Annual Report on Kobe Steel’s Vision “G+”

stated, in relevant part:

KOBELCO VISION “G+,” launching in fiscal 2016, combines the current Group Medium-Term Management Plan and the vision of a business enterprise established in three core business areas. *The new vision aims to further strengthen the Group’s growth strategy centered on the three core business areas of materials, machinery and electric power to establish a solid business enterprise.*

77. The Special Feature insert repeated Kobe Steel’s common strategies to strengthen

its Business:

#### **I. Strengthening corporate governance**

II. *Securing and developing human resources*  
III. *Strengthening technology development and monozukuri (manufacturing) capabilities*

78. The 2017 Annual Report additionally included statements and charts regarding the Company's Compliance Initiatives:

*The Kobe Steel Group recognizes that the viability of a business concern is contingent upon adherence to laws and regulations as well as the observation of social norms. Accordingly, the Group is working to ensure thorough compliance, which it considers a top management priority.*

Moreover, we have recently established the Core Values of KOBELCO and the Six Pledges of KOBELCO Men and Women, which together form a code of conduct that Group employees must follow. \* For more details, see the inside front cover of this report.

**Corporate Code of Ethics**

*The Corporate Code of Ethics sets out principles and guidelines to ensure that we act as a good corporate citizen in accordance with all applicable laws, regulations and social norms.* It consists of the Corporate Ethical Principles, Standards of Corporate Conduct, and Implementation Guidelines for the Corporate Code of Ethics.

*The Corporate Ethical Principles are a set of seven guidelines that the Company, its directors, officers and employees are required to follow when engaging in business activities.* Based on our commitment to enforcing and strengthening compliance, these principles represent the foundations on which we fulfill our corporate social responsibilities, by contributing to the environment and interacting effectively with our customers, business partners, employees, members of the local community, and other stakeholders. The Standards of Corporate Conduct set out guidelines for particularly important activities for the implementation of the Corporate Ethical Principles in day-to-day operations. The Standards of Corporate Conduct are implemented by individual employees based on operating manuals containing detailed explanations.

**Seven Guidelines under the Corporate Ethical Principles**

1. *The Company will operate business fairly and honestly and comply with applicable laws, rules and principles of society.*
2. *The Company will contribute to society by offering excellent products and services, while paying attention to product safety and protection of personal information of customers and partners.*
3. *The Company will create a safe, comfortable and productive workplace and respect the individuality, differences and diversity of employees.*
4. *The Company will respect the interests of stakeholders in the Company.*
5. The Company will be a good corporate citizen that contributes to local communities.

6. The Company will devote itself to protecting the environment and creating a comfortable society.
7. The Company will respect the culture and customs of other nations and contribute to the growth and development of their communities.

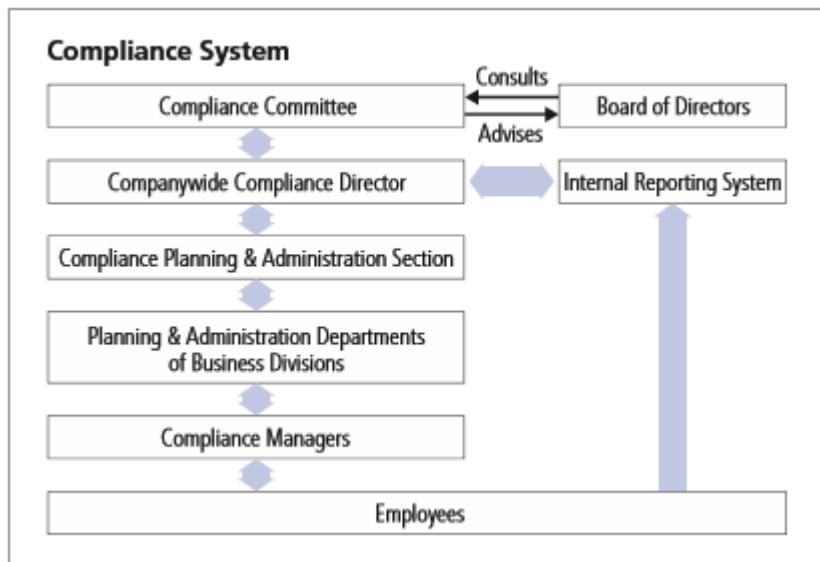
### Compliance Committee

The Company has a Compliance Committee that advises the Board of Directors. Three of its members are company directors, while five come from outside the company in order to maintain fairness and neutrality. The Committee proposes recommended plans, checks on progress, and deliberates cases reported through the internal reporting (whistleblowing) system.

...

### Compliance Measures

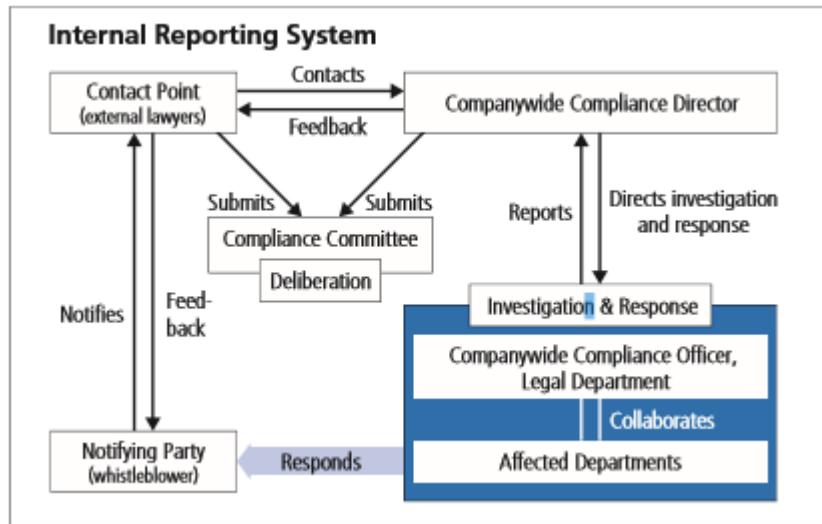
In fiscal year 2016, the Compliance Committee met five (5) times. Activities included formulation of compliance activity plans for fiscal year 2016, and monitoring the status of implementation of compliance activities. Furthermore, based on compliance activity plans for fiscal year 2016, the Company implemented compliance training for executives of the Company and its group companies, and training and legal education separated by employment level for responsible persons and supervisors in each business segment, newly appointed managers, and newly hired persons, etc. Additionally, the Company also implemented legal compliance training for group companies both within and outside of Japan, based on examples of past and current scandals.



### Internal Reporting System

*Our internal reporting (whistleblowing) system is one of the methods we use to prevent risks associated with legal, ethical and other compliance-related issues from materializing and spreading, by quickly identifying problems and*

*implementing appropriate measures. If employees come across any form of illegal conduct within the company, the system enables them to report the matter directly to a designated outside lawyer who operates from a neutral standpoint.* The contents of such reports are then investigated by the Compliance Committee and appropriate action is taken. Similar systems have also been rolled out for Group companies.



### Risk Management Activities

The aim of risk management at the Kobe Steel Group is to enable departments to identify risks independently and take remedial action. Every department formulates and implements their own Risk Management Plan, based on “operating risks” applicable to their own operations, and “shared risks” specified by the relevant staff department at corporate headquarters according to regulatory revisions and social changes. At the end of the fiscal year, the heads of each business unit and department, including top management, review the results of risk management activities over the course of the year and provide feedback for the following year. Essentially, each business unit implements compliance and risk management activities based on the PDCA (Plan, Do, Check, Act) cycle. *The aim of ongoing activities such as these is to establish an organizational culture that is highly sensitive to compliance, within the context of individual operations.*

### Group Company Compliance System

In addition to establishing compliance committees or equivalent bodies at all Group companies and drawing up a Kobe Steel Group Corporate Code of Ethics, we have also introduced an internal reporting system. Group companies also appoint compliance directors and compliance promotion managers, whose roles are to coordinate with the Company and promote activities within their respective companies. Risk management activities in line with those at the Company are carried out at all Group companies.

79. The statements referenced in ¶¶ 36-78 were materially false and/or misleading when made because Defendants misrepresented and failed to disclose the following information necessary to make the statements made not misleading:

- (a) the Company falsified data on many of its aluminum, copper and steel products sold to customers;
- (b) the Company sold products that in reality failed quality control tests in violation of laws and regulations;
- (c) The Company's financial performance relied on selling products that did not meet quality standards in violation of laws and regulations;
- (d) The Company would incur significant costs and lose customers if customers became aware of the substandard quality of products they purchased;
- (e) The Company's compliance initiatives, corporate governance and risk management activities were ineffective and inadequate at preventing product data manipulation, fraud and other related misconduct;
- (f) The Company's internal reporting systems failed to foster employee participation and adequately address employee concerns, and there was an excessive propensity by senior management, including the Individual Defendants, to hyper-emphasize profitability at all costs, that promoted a pervasive culture of corner-cutting, and looking the other way in the face of compliance violations, as long as profits were achieved, which deterred employees from making claims over product quality for fear of retribution and/or management failing to properly investigate claims; and
- (g) As a result, Defendants' statements about the Company's business, operations and prospects were material false and misleading and/or lacked a reasonable basis.

## The Truth Emerges

80. On Sunday, October 8, 2017, during the day, the Company issued a press release entitled "Improper conduct concerning a portion of the aluminum and copper products manufactured by Kobe Steel." The press release discussed that Kobe Steel's products did not comply with customer standards and certificates had been falsified, stating in relevant part:

Kobe Steel, Ltd. (hereinafter referred to as "Company") has discovered that in its Aluminum & Copper Business, including group companies, a portion of the products traded with customers did not comply with the product specifications which were agreed between the Company and its customers. Data in inspection certificates had been improperly rewritten etc., and the products were shipped as having met the specifications concerned (hereinafter referred to as "improper conduct").

This incident of improper conduct came to light following self-inspections and emergency quality audits of the compliance status of contracts executed as to products shipped over the past year. Products discovered at this time subject to the improper conduct (hereinafter referred to as "nonconforming products") are outlined below:

Main products: Aluminum flat-rolled products, aluminum extrusions, copper strips, copper tubes, and aluminum castings and forgings

Shipping period: September 1, 2016 - August 31, 2017

Quantity: Aluminum products (flat rolled, extrusions) About 19,300 tons

Copper products (strips, tubes)      About 2,200 tons

Aluminum castings and forgings      About 19,400 units

For customers to which these nonconforming products were shipped, the Company has begun contacting them one by one and explaining the situation. The Company has been carrying out technical verifications with its customers on the impact of the nonconforming products on quality (including safety) of the end products. The Company has also been conducting an investigation on the facts pertaining to the improper conduct and an investigation as to whether or not similar improper conducts exist in its other business units. Verification and inspection to date have not recognized specific problems casting doubts on the safety of the nonconforming

products. In the event that doubts arise on the safety of the nonconforming products, the Company will quickly take appropriate action.

Additionally, in view of the seriousness of the situation, the Company has set up an investigation committee on quality issues with its Chairman, President and CEO Hiroya Kawasaki as the chairman of the committee. The Company has also requested an outside law firm for an investigation of the facts on the improper conduct. The Company will quickly move ahead and take appropriate action based on the results of the investigation.

The effect this incident will have on the Company's business performance is unclear at this time. The Company plans to make another announcement when the extent of the impact becomes clear.

Causing this serious matter has brought overwhelming shame to the Company. The Company deeply regrets this incident and sincerely apologizes for the enormous worry and trouble this incident has caused to its customers and other related parties. The Company will report again as further progress of the investigation is made.

81. On this news, ADRs of Kobe Steel fell \$0.62 per ADR or over 10% from its previous closing price to close at \$5.30 per ADR on October 9, 2017.

82. On October 10, 2017, before the U.S. market opened, *Reuters* published an article entitled, “Kobe Steel’s data-fabrication stuns Japanese manufactures,” which detailed additional information that Kobe Steel “had fabricated data on components used in cars, aircraft and space rockets, sending shock waves through the Japanese manufacturing sector.” The article continued that the fabricated data impacts “products used by about 200 companies” including Toyota Motor Corp., Central Japan Railway, Mitsubishi Heavy Industries, Mazda Motor Corp., and Subaru Corp.

83. At or around the same time, an analyst at J.P. Morgan (“JPM”) published an analyst report that the falsification scandal “will make investors even more distrustful of management after a series of other shocks that include a scandal at a group company last year and the posting of losses due to a string of bad debts in the construction machinery business.” JPM noted that Kobe Steel’s “[m]anagement is apparently looking as far back as 10 years, so the scope of the problem is likely to expand in our view. Costs will vary greatly depending on how the company deals with

the problem, including whether products are recalled.” JPM further stated that it is difficult to measure the impact of the falsification scandal “due to uncertainties about the scope of the problem and whether the company will exchange products.” JPM further noted that “Kobe Steel may lose customers not only in this segment but in other businesses as well, so it would be prudent to assume this incident will have an impact to a certain extent.”

84. On this news, ADRs of Kobe Steel plummeted \$1.30 per ADR, or over 24% from its previous closing price to close at \$4.00 per ADR on October 10, 2017.

85. On October 10, 2017, after U.S. market hours, *Reuters* published an article entitled, “Kobe Steel crisis deepens as more data tampering revealed; shares tumble,” which detailed additional information about the falsification scandal, including statements made by one of the Company’s executive managing officers, Yoshihiko Katsukawa (“Katsukawa”). The article discussed the Company’s internal investigation and that Kobe Steel acknowledged that it had falsified data reports which may go “back 10 years” as the “data fabrication at the steelmaker was more widespread than initially thought, heightening a safety scare along the global supply chain.” Specifically, *Reuters* reported that Kobe Steel indicated that to date it has “found 70 cases of tampered data on materials used in optical disks and liquid crystal displays at its Kobelco Research Institute Inc.” and “found one case of falsified data on iron powder products shipped to a customer.” Consequently, the article cited Katsukawa, “We can’t rule out the possibility that the external investigation will find other cases.” The article noted that large manufacturers, including Toyota Motor, Ford Motor, Boeing and Mitsubishi Heavy Industries “have said they are investigating the safety products from Kobe Steel.”

86. But the breadth of the scandal turned out to be much larger. After the market closed on October 12, 2017, *Bloomberg* published the article, “Kobe Steel Scandal Expands Into Core

Business Overseas,” which exposed the impact by the Company’s falsification data scandal on large overseas companies. Specifically, the article reported that “Kobe Steel Ltd.’s fake data scandal expanded to its core business after the company admitted ‘inappropriate actions’ related to steel wire produced overseas...used in auto engines and to strengthen tires.” The *Bloomberg* article cited an analyst that the “deepening scandal ‘*suggests that this is company culture, not just the actions of a few rogue employees.*’” The article stated in relevant part:

The cost to protect Kobe Steel’s bonds against non-payment has risen nearly 250 basis points this week to 305 as of Friday, the highest in 20 months, according to credit-default-swap traders and CMA data. The extra yield investors demand to hold the notes due February 2022 over government securities also hit a record 234.4 Thursday, according to data compiled by Bloomberg. That brings its advance from last Friday to 177 basis points.

SMBC Nikko Securities said in a note the new revelations around steel wires could be “quite negative” for Kobe Steel’s creditworthiness as the company holds roughly half of the global market share for the wires used in valve springs of auto engines. If doubts arose over the safety of the wires, it could “shake the foundation” of the company, according to chief credit analyst Takayuki Atake.

87. On October 13, 2017, during U.S. market hours, Kobe Steel issued another press release entitled, “Report on improper conduct concerning Kobe Steel and its group of companies.” The press release provided updated information about an internal investigation and listed nine nonconforming products the Company had identified. At the beginning of the press release, the Company stated, “At this time, Kobe Steel, Ltd. deeply apologizes again for the enormous amount of trouble it is causing to customers, suppliers, shareholders and many other concerning the improper conduct by Kobe Steel and its group companies.” Kobe Steel also revealed in the press release that “[i]n addition to the cases that have been disclosed to date, Kobe Steel has confirmed similar cases of improper conduct.” Specifically, the press release detailed content of nine nonconforming products and revealed that some of the products were shipped to customers as far back as April 2007. Due to the serious nature of the falsification scandal, and the intense backlash

it was beginning to attract, Defendant Kawasaki, the chairman of the investigation committee on quality issues, “commissioned an outside law firm to conduct an investigation to gain the full picture on the facts concerning improper conduct, including the improper conduct that has already been confirmed and previously reported.” Kobe Steel further stated the below:

In view of the seriousness of the situation, Kobe Steel established the investigation committee on quality issues in response to the situation. Based on the results of the outside law firm, Kobe Steel will conduct a thorough analysis of the causes and take companywide measures to prevent recurrence. At this time, as a part of the companywide measures to prevent recurrence, Kobe Steel will strengthen Group governance on quality by reorganizing the quality assurance organization, led by the head office. Kobe Steel will review the inspection system and capital investments to improve quality. In addition, Kobe Steel plans to drive reforms to change the mindset of quality compliance, including in Group company employees, by rebuilding its education system and taking other steps.

88. Also on October 13, 2017, *The New York Times* published an article entitled, “Kobe Steel Scandal Grows to Include Subsidiaries,” which revealed that the number of impacted customers was more than double the initial estimates, and the “data manipulation” was “deliberate.” The article stated “that in some cases the tests [on products] had not been carried out, and that in other cases employees had recorded fake results to make it seem as though the products met customers’ standards when they did not.” The article further reported that the falsification scandal has expanded as Kobe Steel “said nine subsidiaries, including several outside Japan, had either failed to carry out required product checks or lied about the results.” The article noted that the overseas subsidiaries implicated in the falsification scandal included subsidiaries in China, Thailand and Malaysia. Significantly, the article noted that “Kobe Steel said it now estimated that it shipped substandard or potentially substandard materials to 500 customers, up from an initial estimate of 200.” The article further stated, in relevant part:

Kobe Steel said on Sunday that employees had altered inspection certificates on aluminum and copper products from September 2016 to this past August, constituting

about 4 percent of the company's output of those items during the period, but that it was examining other possible episodes of data falsification going back 10 years.

On Wednesday, Kobe Steel added two more products to the list of affected materials: powdered steel, which is used to create molded steel products like gears, and "target material," a specialty mix of metals used to produce DVDs, television screens and other electronics equipment.

89. On this news, ADRs of Kobe Steel fell \$0.40 per ADR or over 10% from its previous closing price to close at \$3.55 per ADR on October 13, 2017.

#### **POST-CLASS PERIOD EVENTS**

90. On October 17, 2017, before U.S. market hours, Kobe Steel issued a press release announcing that the Company's U.S. unit, Kobe Steel USA, had received an inquiry from the U.S. Department of Justice ("DOJ"). The press release stated that the DOJ has requested, "the production of documents related to non-conformity with the specification of products sold by the Company, the U.S. subsidiary or our affiliated companies to U.S. customers."

91. On November 10, 2017, during U.S. market hours, Kobe Steel issued a press release announcing the Company had prepared a "Report on the investigation into the causes of the Kobe Steel Group's inappropriate conducts and on measures to prevent recurrence" (the "November 10 Report") which was submitted to the Ministry of Economy, Trade and Industry.

92. In the November 10 Report, the Company acknowledged five factors that led to the data fabrication:

- 1) Management propensity to overemphasize profitability and the insular organizational culture
- 2) Imbalanced operation of manufacturing facilities
- 3) Inadequate quality control processes that permitted improper conducts
- 4) Reduced awareness for the need to strictly comply with contractual specifications
- 5) Inadequate organizational system

93. On the same day, *Reuters* published an article entitled, “Kobe Steel blames data scandal on focus on profit, lack of controls.” The article summarized the November 10 Report’s key findings by reporting that “a lack of quality controls and a focus on profits was behind the widespread data tampering that has shaken the supply chains of car and plane makers around the world.” The article further stated that according to the November 10 Report, “[m]ultiple workers and managers at nine production sites were involved in tampering data on specifications of products” and “[s]ome of the fabrication of data went on for 10 years.” The article cited Defendant Kawasaki as stating, “Improving our management and corporate governance and instilling a culture where employees can say anything are imperative.”

94. On the same day, *The New York Times* published an article entitled, “Kobe Steel Blames Plant Managers for Quality Control Scandal,” which also summarized the November 10 Report’s key findings. The article stated that “for at least a decade,” Kobe Steel’s “managers took an easier way out, manipulating test data on some products to avoid expensive do-overs.” The article further stated that the November 10 report “concluded that the company had erred by elevating the pursuit of short-term profit over the maintenance of scrupulous quality standards,” which was “exacerbated by lax oversight by senior executives and an ‘insular’ corporate culture that discouraged employees from questioning improper by long-established practices.”

95. On November 21, 2017, JPM published an analyst report where it noted that in the second quarter ended September 30, 2017, “Kobe Steel recognized approximately ¥10 billion [approximately \$88 million] in costs...related to improper conduct mainly in the aluminum & copper and the iron & steel segments.”

96. On December 21, 2017, during U.S. market hours, Kobe Steel issued a press release announcing that its Independent Investigation Committee (“IIC”) has thus far identified three

senior executives “of the Aluminum & Copper Business...as having been aware of part of the misconduct.” Accordingly, “the IIC will diligently continue its investigative activities to find out the motivation and background, among others.”

97. That same day, *The Financial Times* published an article discussing the demotion of the “three executives who were aware of the data tampering behind the company’s recent cheating scandal.” The article pointed out that “[t]wo of those executives knew of the falsification problems as far back as 2009, while one became aware only this year.” The article continued, in relevant part:

Japan’s third-largest steelmaker was thrown into crisis in October when it admitted to falsifying product data on shipments of copper and aluminum between the start of this year and August.

The scandal quickly spread across other metals division and products, ultimately affecting more than 500 companies, including well-known multinationals, that use Kobe Steel materials in their own products including cars, jets, trains, rockets and nuclear plants.

Falsification of product data was said to have gone on for at least a decade.

#### **ADDITIONAL SCIENTER ALLEGATIONS**

98. During the Class Period, as alleged herein, the Individual Defendants acted with scienter in that they knew or were reckless as to whether the public documents and statements issued or disseminated in the name of the Company during the Class Period were materially false and misleading; knew or were reckless as to whether such statements or documents would be issued or disseminated to the investing public; and knowingly and substantially participated or acquiesced in the issuance or dissemination of such statements or documents as primary violations of the federal securities laws.

99. Each of the Individual Defendants: (a) directly participated in the management of the Company; (b) was directly involved in the day-to-day operations of the Company at the highest

levels, including in areas that the Company itself stated were top priorities and areas of focus of senior management and which are the subject of this complaint; (c) was privy to confidential proprietary information concerning the Company and its business operations; (d) was directly or indirectly involved in drafting, producing, reviewing and/or disseminating the false and misleading statements and information alleged herein; (e) was directly or indirectly involved in the oversight or implementation of the Company's internal controls; (f) was aware of or recklessly disregarded the fact that the false and misleading statements were being issued concerning the Company; and/or (g) approved or ratified these statements in violation of the federal securities laws.

100. Each of the Individual Defendants have been employed by Kobe Steel for nearly four decades. The Individual Defendants joined the Company at low ranking positions and steadily progressed to the highest ranks at Kobe Steel's head office. Early in their career as rank and file employees and/or lower level managers, the Individual Defendants directly participated in and/or oversaw the Company's manufacturing operations.

101. As the Chairman, President and Chief Executive Officer and Representative Director of the Company, Defendant Kawasaki was consciously aware of, or recklessly disregarded, the pervasive and longtime culture of misconduct alleged herein, which the Company has acknowledged lasted for at least a decade.

102. As the Executive Vice President and Representative Director who has been in charge and the head of Kobe Steel's aluminum & copper business, Defendant Kaneko was consciously aware of, or recklessly disregarded, the pervasive and longtime culture of misconduct alleged herein, which the Company has acknowledged lasted for at least a decade.

103. As the Executive Vice President and Representative Director who has been in charge and the head of Kobe Steel's iron & steel business, Defendant Onoe was consciously aware

of, or recklessly disregarded, the pervasive and longtime culture of misconduct alleged herein, which the Company has acknowledged lasted for at least a decade.

104. As the Executive Vice President and Representative Director who oversaw Kobe Steel's companywide compliance, and multiple departments including the Audit, Secretariat & Publicity, General Administration, Legal, Human Resources, Corporate & Planning, Research & Development Planning, Accounting, Finance, Marketing Planning, Civil Engineering & Construction Technology, Rugby Administration Office, and Electric Power Business, Defendant Umehara was consciously aware of, or recklessly disregarded, the pervasive and longtime culture of misconduct alleged herein, which the Company has acknowledged lasted for at least a decade. Also, as the Executive Vice President and Representative Director, Defendant Umehara oversaw branch offices and sales offices, and overseas locations under the head office. As the executive who oversaw Kobe Steel's overseas locations, Defendant Umehara was consciously aware of, or recklessly disregarded, the pervasive and longtime culture of misconduct at several of Kobe Steel's overseas locations, including Malaysia, Thailand and China, that have been implicated by the Company in the falsification scandal.

105. A November 4, 2017 *Reuters* article entitled “Scandal-hit Kobe Steel has a ‘look the other way culture,’ they say in hometown” cites a retired Company employee as stating, “The [Company] corporate culture was to look the other way even while you saw what was going on.” The article also cites the former Mayor of Kakogawa where the Company has substantial operations. The Mayor commented on a 2006 incident of Kobe Steel admitting falsifying soot-emissions data from the blast furnaces at Kobe Works and Kakogawa Works. The Mayor stated the latest scandal reflects “exactly the same set-up... It looks like nothing has changed at Kobe Steel.” The same *Reuters* article quotes a senior local government official, who has dealt with the

Company for years, as saying, “Kobe Steel always scouts the backstreets for shortcuts. That’s their nature.”

106. Having approached and surpassed Kobe Steel’s standard retirement age of 60 during the Class Period, the Individual Defendants were motivated by pride and loyalty to look the other way to maintain their increasing stature at the Company and, ultimately, retire with dignity. An October 24, 2017 *CNN* article titled “What’s wrong with Japan Inc.?” describes a counterculture to whistleblowing where loyalty to the Company is paramount for “managers wishing to make their way up Japan’s corporate ladder.” The article states, in relevant part:

Long-term service at a company is rewarded with higher pay and tax benefits. That makes workers “reluctant to blow the whistle for fear of losing their job or being demoted,” said Marcel Thielient, a Japan expert at research firm Capital Economics.

That appears to be what happened at Kobe Steel, where employees fabricated data on the strength and durability on copper and aluminum products going back at least a decade.

Moreover, the Company’s own November 10 Report confirms a Company culture that discouraged speaking out:

*We recognize that* such management structure is the main reason resulting in an insular organizational culture where no voice from the plants regarding “issues at the plants” would be heard or, *even if someone would speak up, nothing would change.* In order to recover the trust that we have lost, it is essential to reform such management structure and the organizational culture that resulted from such structure.

107. Throughout the Class Period, the Individual Defendants had personal knowledge of the Company’s Vision G plans, which they were purportedly focused on implementing, including the 2013-2015 Medium-Term Business Plan to “reduce fixed costs, procurement costs, quality error costs and other costs” by: “Strengthening the Profitability of the Steel Business;” “Securing Sales Volume in Growth Sectors and Regions;” “Improving the Competitiveness of the

Company;” and “Improving Financial Performance.” The Individual Defendants had personal knowledge of the Company’s corporate philosophy which includes providing “reliable and advanced technologies, products and services that satisfy customers.”

108. The Individual Defendants had personal knowledge of the Company’s Compliance System; Internal Reporting System and Corporate Code of Ethics, and their applicability to the Individual Defendants as executives and/or directors of the Company. Indeed, the Corporate Code of Ethics sets “forth the standards by which Kobe Steel, its directors, officers and employees must comply in conducting the Company’s various business activities and covers.” The Corporate Code of Ethics includes seven guidelines under the Corporate Ethical Principles certain principles including operating “business fairly and honestly and comply with applicable laws, rules and principles of society;” contributing to society by offering excellent products and services;” and maintain “healthy positive relations with society at large, including customers, partners, employees and shareholders.”

109. The Individual Defendants permitted Kobe Steel to release the foregoing false and misleading statements and failed to make the necessary corrective disclosures, which artificially inflated the value of the Company’s ADRs.

110. As set forth herein, the Individual Defendants, by virtue of their claimed focus on manufacturing and quality control issues, receipt of information reflecting the true facts regarding Kobe Steel, their control over, receipt, and/or modification of Kobe Steel’s allegedly materially misleading statements and omissions, and/or their positions with the Company that made them privy to confidential information concerning Kobe Steel, participated in the fraudulent scheme alleged herein.

111. The Individual Defendants are liable as participants in a fraudulent scheme and course of conduct that operated as a fraud or deceit on investors of Kobe Steel ADRs by disseminating materially false and misleading statements and/or concealing material adverse facts. The scheme deceived the investing public regarding Kobe Steel's business, operations, and management and the intrinsic value of Kobe Steel ADRs and caused Plaintiff and members of the Class to purchase Kobe Steel ADRs at artificially inflated prices.

112. Kobe Steel and the Individual Defendants participated in a scheme to defraud investors by falsely and repeatedly representing that the Company had rigorous corporate and compliance procedures and internal controls. In fact, the Individual Defendants knew that the Company's corporate governance procedures and internal controls were seriously flawed. Each of the Individual Defendants had intimate knowledge of the Company's operations processes for decades; yet the procedures cited by Defendants failed to avoid and/or detect the falsification of data in inspection certificates of products traded with customers over ten years throughout multiple business units within Kobe Steel. Given the Individual Defendants' intimate operational familiarity with Kobe Steel's style and culture from their decades of operational experience, they knew such procedures and controls were insufficient to prevent the corner-cutting rampant in the organization in the name of achieving profits, a culture they took the lead in promoting and participated in for decades. Indeed, Kobe Steel's management, which includes the Individual Defendants, admitted in the November 10 Report that the main "causes of the confirmed misconducts" included "Management propensity to overemphasize profitability", *i.e.*, "that put too much emphasis on profitability" within the Company, which promoted the pervasive culture of corner-cutting, and looking the other way in the face of compliance violations, as long as profits were achieved; coupled with "[i]nadequate quality control processes" – all contrary to the

Company's repeated representations in its public statements during the Class Period. The Defendants were aware of these factors prior to and throughout the Class Period, and thus had personal knowledge of, or recklessly disregarded, the fraudulent scheme.

113. Kobe Steel has admitted that “[d]ata in inspection certificates had been improperly rewritten etc., and the products were shipped as having met the specifications concerned,” and consequently, certain of Kobe Steel’s “products traded with customers did not comply with the product specifications which were agreed between the Company and its customers.” The November 10 Report found that “multiple business locations of [Kobe Steel] were engaged in inappropriate conducts” including inappropriate conducts by “employees of multiple departments such as a manufacturing department and a quality assurance department were involved, and those where such misconducts continued for a long period.” As noted, the November 10 Report specifically attributed the rampant, Company-wide falsifications and inappropriate conduct including the falsification of test data to “[m]anagement propensity to overemphasize profitability and the insular organizational culture,” and management’s failure to “look into whether there were improper conducts with respect to quality control.” As detailed in the November 10 Report, the management at Kobe Steel’s head office, which included the Individual Defendants, excessively “focused on profitability” and “as long as plants were profitable, the management did not do enough to try to look into whether there were improper conducts with respect to quality control, or grasp various issues that occurred in the production activities at the plants.”

114. The November 10 Report also attributed to the inappropriate conducts of falsification of test data to “[i]nadequate quality control procedures” where the operational environment “provided an opportunity for and promoted misconducts.” Specifically, due to management’s failure to establish adequate quality control procedures, there were systemic

opportunities “for staff members who collected test data entered by the quality testing department to falsify them, for the quality assurance department or the manufacturing department to tamper with test data already entered into the system, or for the management to request the authority to tamper with data or authorize themselves to tamper with data.”

115. Importantly, the November 10 Report also revealed that Kobe Steel and its management including the Individual Defendants were well aware of past compliance issues in the Company. Due to past compliance cases, Kobe Steel’s management established an ethics consulting section in 2000, and in 2003, Kobe Steel “established a Compliance Committee and a whistle-blowing system.” In 2010, Kobe Steel’s head office established the Monodzukuri Department which “was to promote manufacturing by group cooperation.” However, the November 10 Report admitted that because Kobe Steel “focused only on the prevention of recurrence of past major problematic inappropriate cases,” the Company’s effort was “insufficient to prevent compliance issues regarding customers’ specifications.”

116. Notably, since the revelations began in October 2017, Kobe Steel on its website, has admitted, “We are extremely sorry for our improper conduct. At this time, we sincerely and deeply apologize for the enormous amount of worry and trouble we have caused many of you in respect to the improper conduct concerning a portion of our products made by our company and group companies.” In its November 10 Report also, Kobe Steel apologized “for the enormous amount of trouble it is causing to customers, suppliers, shareholders and many others concerning the improper conduct by Kobe Steel and its group companies.” In submitting the November 10 Report to the Japanese government, Defendant Kawasaki stated, “Improving our management and corporate governance and instilling a culture where employees can say anything are imperative.” This was in recognition of the fact that prior to and during the Class Period, the culture

implemented and fostered by senior-most management, including the Individual Defendants, was one where employees could not discuss improper short-cutting, skimping on quality, or falsifying data to cut costs, because it was understood that it was top management, including the Individual Defendants, that was pushing the “profitability at all costs” culture at the Company in the first place. As the November 10 Report stated, “such misconducts [sic] continued for a long period,” and, it has now been widely reported, went on for at least a decade.

117. The Company is liable for the acts of the Individual Defendants and its employees under the doctrine of *respondeat superior* and common law principles of agency because all of the wrongful acts complained of herein were carried out within the scope of their employment.

118. The scienter of the Individual Defendants and other employees and agents of the Company is similarly imputed to the Company under *respondeat superior* and agency principles.

#### **LOSS CAUSATION/ECONOMIC LOSS**

119. During the Class Period, as detailed herein, Kobe Steel and Individual Defendants made false and misleading statements and engaged in a scheme to deceive the market and a course of conduct that artificially inflated the prices of Kobe Steel ADRs, and operated as a fraud or deceit on Class Period purchasers of Kobe Steel ADRs by misrepresenting the Company’s business and prospects. Later, when Defendants’ prior misrepresentations and fraudulent conduct became known to the market, the price of Kobe Steel ADRs declined as the prior artificial inflation came out of the price over time due to the disclosures cited herein. As a result of their purchases of Kobe Steel ADRs during the Class Period, Plaintiff and other members of the Class suffered economic loss, i.e., damages, under the federal securities laws.

#### **APPLICABILITY OF PRESUMPTION OF RELIANCE: FRAUD ON THE MARKET**

120. Plaintiff will rely upon the presumption of reliance established by the fraud-on-the-market doctrine in that, among other things:

- (a) Defendants made public misrepresentations or failed to disclose material facts during the Class Period;
- (b) the omissions and misrepresentations were material;
- (c) the Company's ADRs traded in efficient markets;
- (d) the Company's ADRs were liquid and traded with moderate to heavy volume during the Class Period;
- (e) the Company's ADRs traded on the OTC, and were covered by multiple analysts;
- (f) the misrepresentations alleged would tend to induce a reasonable investor to misjudge the value of the Company's ADRs;
- (g) Plaintiff and other members of the Class purchased Kobe Steel's ADRs between the time Defendants misrepresented or failed to disclose material facts and the time the true facts were disclosed, without knowledge of the misrepresented or omitted facts; and
- (h) Unexpected material news about the Company was rapidly reflected in and incorporated into the price of Kobe Steel ADRs during the Class Period.

121. As a result of the foregoing, the market for Kobe Steel ADRs promptly digested current information regarding the Company from publicly available sources and reflected such information in the price of Kobe Steel ADRs. Under these circumstances, all purchasers of Kobe Steel ADRs during the Class Period suffered similar injury through their purchase of Kobe Steel ADRs at artificially inflated prices and the presumption of reliance applies.

122. Further, to the extent that the Defendants concealed or improperly failed to disclose material facts with regard to the Company, Plaintiff is entitled to a presumption of reliance in accordance with *Affiliated Ute Citizens of Utah v. United States*, 406 U.S. 128, 153 (1972).

**NO SAFE HARBOR**

123. The statutory safe harbor provided for forward-looking statements under certain circumstances does not apply to any of the allegedly false statements pleaded in this Complaint. The statements alleged to be false and misleading herein all relate to then-existing facts and conditions. In addition, to the extent certain of the statements alleged to be false may be characterized as forward looking, they were not identified as “forward-looking statements” when made and there were no meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those in the purportedly forward-looking statements. In the alternative, to the extent that the statutory safe harbor is determined to apply to any forward-looking statements pleaded herein, Defendants are liable for those false forward-looking statements because at the time each of those forward-looking statements were made, the speaker had actual knowledge that the forward-looking statement was materially false or misleading, and/or the forward-looking statement was authorized or approved by an executive officer of Kobe Steel who knew that the statement was false when made.

**CLASS ACTION ALLEGATIONS**

124. Plaintiff brings this action as a class action pursuant to Rule 23 of the Federal Rules of Civil Procedure on behalf of all persons or entities who purchased or otherwise acquired Kobe Steel ADRs on the open market in the United States between May 29, 2013 and October 12, 2017, inclusive (the “Class”). Excluded from the Class are Defendants, members of the immediate

family of each of the Individual Defendants, any subsidiary or affiliate of Kobe Steel, and the directors and officers of Kobe Steel and their families and affiliates at all relevant times.

125. The members of the Class are so numerous that joinder of all members is impracticable. Throughout the Class Period, the Company's ADRs were actively traded on the OTC. While the exact number of Class members is unknown to Plaintiff at this time and can be ascertained only through appropriate discovery, Plaintiff believes that there are hundreds or thousands of members in the proposed Class. Record owners and other members of the Class may be identified from records maintained by the Company or its transfer agent and may be notified of the pendency of this action by mail, using the form of notice similar to that customarily used in securities class actions.

126. The disposition of their claims in a class action will provide substantial benefits to the parties and the Court.

127. There is a well-defined commonality of interest in the questions of law and fact involved in this case. Questions of law and fact common to the members of the Class which predominate over questions which may affect individual Class members include:

- (a) Whether the Exchange Act was violated by Defendants;
- (b) Whether Defendants omitted and/or misrepresented material facts;
- (c) Whether Defendants' statements omitted material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading;
- (d) Whether Defendants knew or recklessly disregarded that their statements were false and misleading;
- (e) Whether the price of Kobe Steel ADRs was artificially inflated; and

(f) The extent of damage sustained by Class members and the appropriate measure of damages.

128. Plaintiff's claims are typical of those of the Class because Plaintiff and the Class sustained damages from Defendants' wrongful conduct.

129. Plaintiff will adequately protect the interests of the Class and has retained counsel experienced in securities class action litigation. Plaintiff has no interests that conflict with those of the Class.

130. A class action is superior to other available methods for the fair and efficient adjudication of this controversy.

### **CLAIMS FOR RELIEF**

#### **COUNT I** **(For Violation of Section 10(b) of the Exchange Act** **and Rule 10b-5 Against All Defendants)**

131. Plaintiff repeats and realleges each and every allegation contained in the foregoing paragraphs as if fully set forth herein.

132. During the Class Period, Defendants disseminated or approved the false statements specified above, which they knew or recklessly disregarded were misleading in that they contained misrepresentations and failed to disclose material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading.

133. Defendants violated Section 10(b) of the Exchange Act and Rule 10b-5 in that they:

- (a) Employed devices, schemes, and artifices to defraud;
- (b) Made untrue statements of material facts or omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; or

(c) Engaged in acts, practices, and a course of business that operated as a fraud or deceit upon Plaintiff and others similarly situated in connection with their purchases of Kobe Steel ADRs during the Class Period.

134. Plaintiff and the Class have suffered damages in that, in reliance on the integrity of the market, they paid artificially inflated prices for Kobe Steel ADRs. Plaintiff and the Class would not have purchased Kobe Steel ADRs at the prices they paid, or at all, if they had been aware that the market prices had been artificially and falsely inflated by Defendants' misleading statements.

135. As a direct and proximate result of these Defendants' wrongful conduct, Plaintiff and the other members of the Class suffered damages in connection with their purchases of Kobe Steel ADRs during the Class Period.

**COUNT II**  
**(For Violation of Section 20(a) of the Exchange Act**  
**Against the Individual Defendants)**

136. Plaintiff repeats and realleges each and every allegation contained in the foregoing paragraphs as if fully set forth herein.

137. At all relevant times, the Individual Defendants participated in the operation and management of Kobe Steel, and conducted and participated, directly and indirectly, in the conduct of the Company's business affairs. Because of their senior positions, they knew the adverse non-public information described above which rendered the Company's statements false and misleading.

138. As officers and/or directors of a publicly owned company, the Individual Defendants had a duty to disseminate accurate and truthful information with respect to Kobe

Steel's financial condition and results of operations, and to correct promptly any public statements issued by Kobe Steel which had become materially false or misleading.

139. Because of their positions of control and authority as senior officers, the Individual Defendants were able to, and did, control the contents of the various reports, press releases and public filings which Kobe Steel disseminated in the marketplace concerning its results of operations. At all relevant times, the Individual Defendants exercised their power and authority to cause and/or facilitate Kobe Steel to engage in the wrongful acts complained of herein. The Individual Defendants therefore, were "controlling persons" of Kobe Steel within the meaning of § 20(a) of the Exchange Act. In this capacity, they participated in the unlawful conduct alleged which artificially inflated the market price of Kobe Steel ADRs. Each of the Individual Defendants, therefore, acted as a controlling person of Kobe Steel. By reason of their senior management positions and/or being directors of Kobe Steel, each of the Individual Defendants had the power to direct the actions of, and exercised the same to cause, Kobe Steel to engage in the unlawful acts and conduct complained of herein. Each of the Individual Defendants exercised control over the general operations of Kobe Steel and possessed the power to control the specific activities which comprise the primary violations about which Plaintiffs and the other members of the Class complain.

140. By reason of the above conduct, the Individual Defendants are liable pursuant to § 20(a) of the Exchange Act for the violations committed by Kobe Steel.

#### **PRAYER FOR RELIEF**

141. WHEREFORE, Plaintiff prays for judgment as follows:

- (a) Declaring this action to be a proper class action pursuant to Federal Rule of Civil Procedure 23;

- (b) Awarding Plaintiff and the members of the Class damages and interest;
- (c) Awarding Plaintiff's reasonable costs, including attorneys' fees; and
- (d) Awarding such equitable/injunctive or other relief as the Court may deem just and proper.

**JURY DEMAND**

142. Plaintiff demands a trial by jury.

Dated: December 26, 2017  
New York, New York

Respectfully submitted,

**WOLF POPPER LLP**

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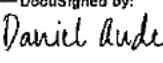
**CERTIFICATION OF PROPOSED LEAD PLAINTIFF  
PURSUANT TO FEDERAL SECURITIES LAWS**

I, Daniel Aude, duly certify and say, as to the claims asserted under the federal securities laws, that:

1. I have reviewed the complaint and authorized its filing.
2. I did not purchase the security that is the subject of this action at the direction of plaintiff's counsel or in order to participate in this private action.
3. I am willing to serve as a representative party on behalf of the class, including providing testimony at deposition and trial, if necessary.
4. My transactions in Kobe Steel Ltd. securities, which are the subject of this litigation during the class period set forth in the complaint are set forth in the chart attached hereto.
5. Within the last three years, I have not sought to serve nor have I served as a class representative in any federal securities fraud case.
6. I will not accept any payment for serving as a representative party on behalf of the class beyond the plaintiff's pro rata share of any recovery, except as ordered or approved by the court, including any award for reasonable costs and expenses (including lost wages) directly relating to the representation of the class.

I certify under penalty of perjury under the laws of the United States of America that the foregoing is true and correct.

Executed this 22 day of December 2017.

DocuSigned by:  
  
75287FF28D0C45E..  
Daniel Aude

## **SCHEDEULE A**

**Kobe Steel Ltd. (OTC: KBSTY)**

**Securities Transactions**

**Acquisitions**

<b>Date Acquired</b>	<b>No. Shares</b>	<b>Price</b>
11/7/14	100	\$7.70
2/10/17	1,000	\$4.91
10/10/17	100	\$4.28
10/10/17	100	\$4.04

**Dispositions**

<b>Date Disposed</b>	<b>No. Shares</b>	<b>Price</b>
10/21/15	100	\$6.33